



Social Protection for All Men and Women

A sourcebook for extending social security coverage in Solomon Islands – options and plans

February 2006

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Foreword

Social security is widely accepted as the protection which society provides for its members, through a series of public measures to (i) offset the absence or substantial reduction of income from work resulting from the contingencies of sickness, maternity, employment injury, unemployment, invalidity, old age, and death, (ii) provide them with health care, and (iii) provide financial support to families with children.

These are the basic contingencies specified in the ILO Social Security (Minimum Standards) Convention, No.102 of 1952 which is used by developing countries as a guide in the planning of social security systems.

Lack of adequate social security is one of the greatest challenges facing the countries in the Pacific. The ILO views that the extension of social security is an essential component of the ILOs effort for the fulfilment of *Decent Work* for all men and women.

The ILO has sought to assist in this process of change and improvement through the project *Subregional Initiative on Social Security for the Pacific Island Countries* that involved five Pacific island countries – Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu – and was funded by the Netherlands Government.

This publication is a consolidation of the research papers and feasibility studies produced by the project. The scope of these reports covers areas of critical importance in extending social security coverage to all workers. These include overview of social security, extension of social security, formal employment sector and informal economy surveys, feasibility studies of pensions, unemployment insurance, traditional systems, workers' compensation, social assistance, maternity protection and health insurance. As a cross-cutting issue, focus on gender equality has been underpinned for all the feasibility studies.

Additional studies considered operations and information technology. The studies were used as a basis for the National Action Plan for Social Security.

We believe that awareness about these issues, and discussion about realistic steps to be taken to improve access to social security and benefits available, are essential to the development of an effective action plan to improve social protection in Solomon Islands.

We wish to thank and acknowledge the support provided by the ILOs tripartite partners, social security organizations, National Project Coordinators and project staff as they facilitated the access for the project team to the various stakeholders in the field of social security. The ILO is grateful for the support of the Netherlands Government throughout the project.

Finally, we would like to congratulate the persons involved in the project and in the preparation of this publication. In particular, we would like to thank Mr. John Angelini, the Chief Technical Advisor of the project, and the expert consultants who have prepared the reports.

We trust that this publication will be a valuable reference source for those concerned with the development of a better social security system now and in the future.

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Some of the country data on demography, economy and health status have been extracted from publications by various international organizations including ADB, ILO, SPC, UNDP, UNFPA and from local sources in each country. The team would like to thank these sources for their direct or implied permission to use those resources.

Introduction – user's guide to the sourcebook

This publication is intended to serve as a reference book for planners to formulate the policy and strategy to extend social security coverage to the entire population of Solomon Islands.

As part of the ILO project *Subregional Initiative on Social Security for the Pacific Island Countries*, a series of research papers and feasibility studies has been produced.

The purpose of this publication is to present these reports in a consolidated and readable form. The remainder of this sourcebook has been divided into four Parts:

Part I comprises eight chapters dealing with a general review of social security and related issues. Chapter 1 sets out the basic framework of the project. Chapter 2 discusses key issues in social security such as the needs, economic effects and financing options of social security. Chapter 3 is devoted to analysing the challenges and strategies for extending social security coverage. Chapter 4 provides an overview of demographic and economic context and a review of the social security system in Solomon Islands. Chapter 5 presents and analyses the results of surveys of workers in both the informal and formal economies. Chapter 6 looks into traditional social protection systems in Solomon Islands. This is complemented by Chapter 7 which discusses the application of ILO Convention No. 169 for indigenous and tribal peoples. Part I concludes with Chapter 8 which focuses on gender equality in general and on the social security system in Solomon Islands in particular.

Part II contains ten feasibility studies on extending social security coverage and covers core results of policy analysis. Chapter 9 discusses the principles applying to health care financing while Chapter 10 focuses on feasibility of introducing social health insurance to Solomon Islands. Chapter 11 describes key principle issues on social security pensions and discusses their implications for Solomon Islands. Chapter 12 sets out basic principles on unemployment protection and Chapter 13 analyses the feasibility of an unemployment insurance scheme for Solomon Islands. Chapters 14 and 15 are devoted

respectively to the principles of social assistance and the feasibility of its introduction to Solomon Islands. Chapters 16 and 17 deal with workers' compensation schemes and are organised in a similar structure. Chapter 18 focuses on maternity protection as part of gender-specific intervention. Chapter 19 is a report on the operations and information technology of the Solomon Islands National Provident Fund.

Part III consists of Chapter 20 on a National Action Plan for Social Security in Solomon Islands and represents the plans, road map and implementation of the policies developed by the feasibility studies.

Part IV supplements with ten Annexes.

We welcome comments and suggestions on this sourcebook. For further information, please contact us at:

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Other publications in this series:

Copies of *Social Security for All Men and Women – A sourcebook for extending social security coverage: options and plans* are available for the following Pacific Island Countries: Fiji, Kiribati, Samoa and Vanuatu.

Electronic copies of these publications are available from the project webpage at:
www.ilosuva.org/

Abbreviations

ADB	Asian Development Bank	NERRDP	Solomon Islands National Economic Recovery, Reform and Development Plan 2003-2006.
APNGCR	Asia Pacific Network for Global Change Research (New Zealand)	NGO	Non-Governmental Organisation
BPA	Beijing Platform for Action	NIB	National Insurance Board
CCA	Common Country Assessment	NL	National Library
CDF	Cooperative Development Fund	NM	National Museum
CEDAW	Convention on Elimination of All Forms of Discrimination Against Women (UN)	NSO	National Statistics Office
CESR	Committee on Economic, Social and Cultural Rights (UN)	NVMS	Ni-Vanuatu Micro Finance Scheme
CRC	Committee on Rights of the Child (UN)	NZODA	New Zealand Official Development Assistance
CRP	Comprehensive Reform Program	PACER	Pacific Agreement on Closer Economic Relations
CROP	Council of Regional Organisations of the Pacific	PANG	Pacific Network on Globalisation
CSW	Commission on the Status of Women	PCIT	Pacific Island Countries and Territories
CTA	Chief Technical Advisor	PCRC	Pacific Concerns Resource Centre
DFID	Department for International Development (UK)	PIC	Pacific Island Country
DESP	Department of Economic and Sector Planning	PICTA	Pacific Island Countries Trade Agreement
EEZ	Exclusive Economic Zone	PICTs	Pacific Island Countries and Territories
EFA	Education for All (UNESCO)	PPA	Pacific Platform for Action
EIA	Environmental Impact Assessment	PTI	Permanent Total Disablement
ESCAP	Economic and Social Commission for Asia and the Pacific (UN)	RAMSI	Regional Assistance Mission in Solomon Islands
EU	European Union	RERF	Revenue Equalisation Reserve Fund
EVI	Environmental (or Economic) Vulnerability Index	RETA	Regional Technical Assistance (ADB)
FAO	Food and Agricultural Organisation	RBV	Reserve Bank of Vanuatu
FEMM	Forum Economic Ministers' Meeting	SINPF	Solomon Islands National Provident Fund
FIC	Forum Island Country	SOE	State-Owned Enterprise
FNPF	Fiji National Provident Fund	SNPF	Samoa National Provident Fund
Forsec	Pacific Islands Forum Secretariat	SPC	Secretariat of the Pacific Community
FTA	Free Trade Agreement	SPREP	South Pacific Regional Environment Programme
GDP	Gross Domestic Product	SSIGO	State Social Insurance General Office
GNP	Gross National Product	SSPIC	ILO project Social Security in Pacific Island Countries i.e. this project
HDR	Human Development Report (UNDP)	STD	Sexually Transmitted Disease
HIES	Household Income and Expenditure Survey	UNCTAD	United Nations Conference for Trade and Development
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome	UNDAF	United Nations Development Assistance Framework
HRC	Human Rights Committee (UN)	UNDESA	United Nations Department for Economic and Social Affairs
ICT	Information and Communication Technologies	UNDP	United Nations Development Programme
ILO	International Labour Organisation	UNDSPD	United Nations Division for Social Policy and Development
IMF	International Monetary Fund	UNESCO	United Nations Educational, Scientific and Cultural Organisation
KCUL	Kiribati Credit Union League	UNFPA	United Nations Population Fund
KPF	Kiribati Provident Fund	UNICEF	United Nations Children's Fund
LDC	Least Developed Country	UNIFEM	United Nations Development Fund for Women
LMS	Labour Market Survey	UI	Unemployment Insurance
MDG	Millennium Development Goals	USP	University of the South Pacific
METT	Ministry of Education, Training & Technology (Kiribati)	VANGO	Vanuatu Association of Non-Governmental Organization
MFI	Microfinance institution	VCC	Vanuatu Cultural Centre
MIU	Microinsurance unit	VCHSS	Vanuatu Cultural & Historical Site Survey
MOF	Ministry of Finance	VFSC	Vanuatu Financial Services Commission
MOU	Memorandum of Understanding	VNPF	Vanuatu National Provident Fund
MOH	Ministry of Health	WB	World Bank
NAPDW	ILOs National Action Plans for Decent Work	WDR	World Development Report (WB)
NBV	National Bank of Vanuatu	WHO	World Health Organisation
NCC	National Council of Chiefs		
NDEC	National Disaster Executive Committee		
NDS	National Development Strategy		

Definitions

Actuary	A professional who compiles statistics on events and key social and financial parameters to estimate the probabilities of events occurring in order to establish contributions (premiums) and benefits.	Primary Health Care	The first level of contact by individuals, families and communities with the health system
Adverse Selection	The tendency to only voluntarily insure against the high risks and remain uninsured against lower risk. For example young health people not choosing to take out health insurance until their risks increase with old age.	Reserves	Funds held either for a possible unknown event (contingency funds) or because of regulation.
Contribution	Payment of an agreed sum of money by a member to a social insurance scheme in return for a specified benefit in return.	Social Exclusion	Inadequate or unequal participation in social life, or exclusion from a place in the consumer society, often linked to the social role of employment at work
Defined Benefit	The amount, usually formula based, guaranteed to each person who meets defined entitlement conditions	Social Insurance	An insurance program that is shaped by broader social objectives than just by self interest of each individual principal or agent, while retaining insurance principles that persons are insured against a definite risk
Defined Contribution	When the benefit is limited to what has been paid into the fund or contributed (plus interest)	Social Protection	Is a newer, broader term that includes all of Social Security; it is firmly related to poverty reduction (unlike Social Insurance but like Social Assistance) and includes ensuring access to health care whether through public, private or community based initiatives.
Formal Employment Sector	The formal sector represents the more administratively visible part of the economy and society, namely the public and private corporate sector and comprises enterprises and the professional self-employed that have been accorded Legal Status and are regarded as legal entities	Social Safety Net (SSN)	Is more recent and associated with short-term policies to counter structural and economic adjustments such as the transition from command to market economies in the former soviet states and economic crises such as the one that occurred in Asia in 1997. This definition was sponsored primarily by the World Bank and its social funds that were essentially targeted social assistance schemes provided for a limited term and were intended to build local capacity and improve governance in developing countries.
Health Care Providers	Doctors, nurses, hospitals, clinics, laboratories, imaging facilities, pharmacies etc and other deliverers of medical services.	Social Security	Is one of the most common terms used to describe all social (not economic) programs used to reduce poverty and underdevelopment in developing countries. Its origins date to the ILO 1952 International Labour Conference where the Social Security minimum standards (No. 102) were accepted. Social Security is an umbrella term that includes Social Insurance (systems where workers and employers make contributions to insure against specific life events) and Social Assistance (more likely to be government sponsored, non-contributory and designed to meet basic needs rather than specific contingencies).
Informal Economy	The informal economy comprises those individuals and employers that have not been accorded legal status and have commenced their operations often without the sanction or knowledge of the local authorities (e.g. cottage workers)	Solidarity Principle	Applying rules that spread risks and resources across members of a group in a way that provides both insurance coverage and egalitarian distribution.
Microfinance	is the provision of financial services to the poor who would otherwise be unable to satisfy the normal equity requirements for loans.		
Microinsurance	A mechanism for pooling community risks and resources to protect participating members against the financial consequences of mutually determined risks (usually health)		
Mode or Modal	Statistical term used when identifying categories rather than individual items. It is the value in a distribution that has been observed with the greatest frequency or the most popular value.		
Morbidity	Refers to illness from a specific disease or cause or from all diseases		
Mortality	Refers to death from a specified disease or from all diseases		
Premium	Is an amount paid to an insurance carrier for providing insurance coverage under terms of a contract.		



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Exchange rates

<i>Country</i>	<i>Currency</i>	<i>1 USD</i>
<i>Australia/Kiribati</i>	<i>AUD</i>	<i>1.3404</i>
<i>Fiji</i>	<i>FJD</i>	<i>1.7229</i>
<i>Hong Kong</i>	<i>HKD</i>	<i>7.7541</i>
<i>India</i>	<i>INR</i>	<i>44.4550</i>
<i>Indonesia</i>	<i>IDR</i>	<i>9,499.15</i>
<i>Japan</i>	<i>JPY</i>	<i>115.2330</i>
<i>Korea</i>	<i>KRW</i>	<i>963.975</i>
<i>Malaysia</i>	<i>MYR</i>	<i>3.7520</i>
<i>Pakistan</i>	<i>PKR</i>	<i>59.8750</i>
<i>Philippines</i>	<i>PHP</i>	<i>52.84500</i>
<i>Samoa</i>	<i>WST</i>	<i>2.7266</i>
<i>Singapore</i>	<i>SGD</i>	<i>1.6306</i>
<i>Solomon Islands</i>	<i>SBD</i>	<i>7.2992</i>
<i>Sri Lanka</i>	<i>LKR</i>	<i>102.1650</i>
<i>Vanuatu</i>	<i>VUV</i>	<i>112.0000</i>
<i>Source: www.xe.com Universal Currency Converter 19 January 2006</i>		



PART I

INTRODUCTION and SOCIAL SECURITY REVIEW

- Chapter 1 The Project – Rationale and Implementation**
- Chapter 2 Overview of Social Protection systems**
- Chapter 3 Extension of Social Security Coverage**
- Chapter 4 Country Overview and Social Security Review**
- Chapter 5 Survey of Workers in the Informal Economy and Formal Employment Sector**
- Chapter 6 Traditional Social Protection Systems in the Pacific – Culture, Customs and Safety Nets**
- Chapter 7 ILO Convention 169 for Indigenous and Tribal Peoples**
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Chapter 1 The Project – Rationale and Implementation

1.1 Background

Social security is not only a basic need; it is a basic human right. However, in the countries in the Pacific sub-region, only limited numbers of people have access to limited protection provided through social security systems.

Lack of adequate social security represents one of the greatest challenges facing the countries in the Pacific. In the absence of comprehensive social security cover by the national system, the ultimate safety net is still provided by traditional social practices and family support, which tend to weaken as the society transforms into a modern one. The absence of well-functioning social security systems is a major cause of poverty, ill health and high mortality.

In terms of social and economic development, Pacific Island countries are confronted with a number of impeding factors such as smallness, remoteness, geographic dispersion, political instability, limited domestic markets, dependence on foreign aid and external conditions, environmental concerns and vulnerability to natural disasters. In the context of globalisation, these factors create growing regional inequalities, rendering the countries in the Pacific sub-region vulnerable to relegation into the backwater of the rapid changes in the global development. Social security systems in the Pacific sub-region are at different stages of the development. However, they have the following major problems in common.

1.2 Limited coverage and inadequate benefits

Social security coverage in these countries is limited to workers in the formal employment sector which represents only a small fraction of working population. In particular, a large majority of workers in the informal economy are excluded from social security schemes.

The scope and level of social security benefits are also inadequate. In most Pacific Island countries, national provident funds and workers' compensation are the only available social security benefits, which were implemented in the pre-independence days. Other types of much

needed benefits such as health care, sickness, maternity, unemployment benefits are not available. Furthermore, the level of benefits provided from the existing schemes is not sufficient to provide adequate protection for the workers and their families.

A straightforward savings scheme of the provident fund type fails to provide guaranteed national minimum benefit, as there is no pooling of risks. The members of the provident funds at retirement usually have no option but to receive their benefits as a lump-sum. Lump-sum benefits are vulnerable to pressures for speedy consumption by the recipients and their extended families.

Workers' compensation schemes are still based on employers' liability, which does not ensure full compliance particularly by employers of small sized enterprises. Compensation is usually made as a one-off lump sum payment only in the event of accident or disease directly resulting from work (excluding accidents during commutation), and benefits for rehabilitation, prevention and promotion of occupational safety and health are mostly not provided.

Basic medical care is provided free by the government for all nationals and includes hospital confinement, professional services, laboratory examinations and medicine. However, because of the inability of government to allocate enough budget, the quality of public health services is poor. In most remote islands, people go to clinics that may be staffed only by a trained nurse. Women still depend at childbirth on midwives or traditional birth attendants. Major hospital services at tertiary level such as heart operations and dialysis are only available in one or two hospitals in the capital cities. For emergency cases, evacuation to Australia, Hawaii and New Zealand is possible under the referral system only if a panel of doctors approve the case to be *urgent and treatable*.

1.3 Link to decent work approach at national level

ILO member states in the Pacific sub-region have been active in working with the ILO to develop and implement National Action Plans for Decent

Work (NAPDW). The outcomes were presented at the Sub-regional Tripartite Forum on Decent Work held in Auckland in October 2003 and at a further forum in Melbourne, Australia in April 2005 which provided an opportunity to consolidate the significant progress in promoting the *Decent Work* agenda across the sub-region.

The project was undertaken within the framework of the NAPDW of the Pacific countries. In their NAPDW, the following problems have been identified by the ILO tripartite constituents as major Decent Work deficits in respect of social security:

- Limited coverage of social security, in particular for workers in the informal economy (Fiji, Kiribati, PNG, Solomon Islands);
- Inadequate scope and level of social security benefits (Fiji, Solomon Islands);
- Problems of governance and sustainability of social security system (PNG, Solomon Islands).

In response to these deficits, the National Action Plans for Decent work (NAPDW) prescribe the actions for ILO support to the development of a national strategy for extension of social security coverage and to provide technical support for improvements in financial governance, investment policy and administration of social security benefits.

1.4 National development frameworks

Social security is vital both in the socio-economic development and in poverty reduction. All Pacific Island countries have committed themselves to attaining the Millennium Development Goals (MDG). The ILO can make significant contributions to MDG Goal 1 of halving poverty by 2015, by assisting Pacific Island countries to extend social security schemes in order to increase the number of people who will be more resilient to social shocks and hence falling into poverty.

In **Solomon Islands**, the government's national development plan identifies one of its national goals as improved economic and social safety nets for vulnerable groups and for women and children. The Solomon Islands National Provident Fund (SINPF) seeks more technical assistance to review its financial viability and operational capacity. The government has also

requested direct assistance from the ILO to reform the existing workers' compensation scheme which is also dated and based on employer liability using voluntary private insurance. Moreover, the following observations have been made.

1.5 Poverty reduction

Four out of the five countries covered by the ILO project *Subregional Initiative on Social Security in Pacific Island Countries* – Kiribati, Samoa, Solomon Islands and Vanuatu – are listed by the UN as Least Developed Countries (LDC), with a low income (the GDP per capita is less than USD900 a year), human resource weaknesses and economic vulnerability.

Social security schemes usually incorporate provisions for focusing on income protection of the poor. One of the fundamental tasks of the social security schemes is for the state to perform income transfer to provide minimum income protection to those who live on less than the minimum income level. This concept is fully reflected in the ILO minimum standards convention No 102 (1952). However, as provident funds are the common type of social security system in the sub-region, the effect of redistribution is limited as this type of individual savings scheme entails little or no income redistribution or social solidarity and are in essence individual savings schemes managed by the fund. An effective policy is sought on how to introduce a guaranteed minimum benefit in the framework of the provident fund model.

In the absence of unemployment benefit or any organised form of social assistance, the existing schemes, notably the provident funds, act as de facto social safety nets by meeting the immediate need of cash for the people who experience unexpected adversities such as economic crises or social unrest. However, these withdrawals from the fund are at the expense of savings for retirement. This resultant limited retirement benefits result in more retired workers who need to rely on traditional family and community support. This ILO project *Subregional Initiative on Social Security in Pacific island Countries* also aims to extend the scope and impact of income protection benefits (social security).

In most Pacific countries, provident funds are also major financial institutions in the national economy and in some countries are in fact the

largest single financial institutions. The assets invested by the provident funds constitute a significant portion of national wealth. In this way provident funds contribute to the capital accumulation in domestic financial markets. If the funds are properly invested in productive economic activities, they will also contribute to economic growth in the long term.

1.6 The project aims

The *Subregional Initiative on Social Security for the Pacific Island Countries* will contribute to better social and economic security for all members of society through improved coverage and efficiency of social security systems. It will also contribute to the promotion of gender equality.

The project aims are to:

- Formulate comprehensive country programmes on social security in the form of tripartite national action plans based on the needs assessment survey, financial and gender analyses, and take steps for their implementation;
- Improve the efficiency of existing social security organisations in providing services both at management and operational levels and enhance their capacity for the enforcement of the legislation and the management of the funds.

- Develop gender-mainstreamed and gender-specific policies and interventions in social security, which will lead to greater gender equality.

The project was implemented in three broad stages that included:

- A review of existing programs and systems that included surveys of the informal and formal economy workers and inputs from key tripartite stakeholders and the status of other associated programs like microfinance;
- Conduct of feasibility studies on priority benefits programs that included the technical rationale behind the range of typical social security programs and the feasibility of their implementation in the country. This will include a study on the existing traditional systems and how they impact on potential social security programs, particularly in the informal economy and how they can be strengthened to provide basic services; and
- Based on the feasibility studies and a second round of tripartite stakeholder inputs, the national action plans were developed. The output will include the technical and feasibility considerations produced in a reference manual format to facilitate future stages of social security reform.

Figure 1.1 Project overview

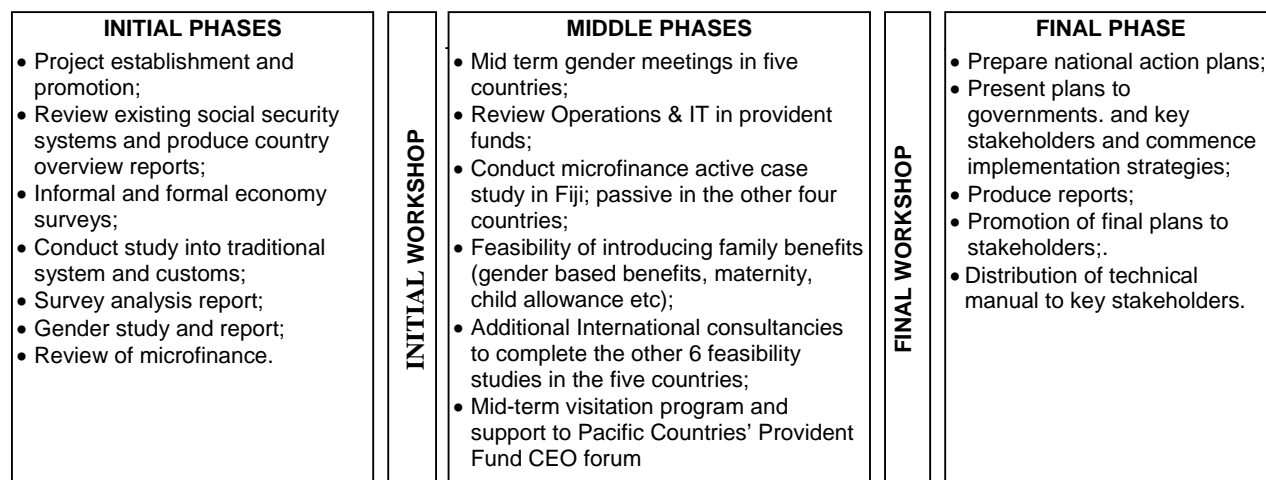
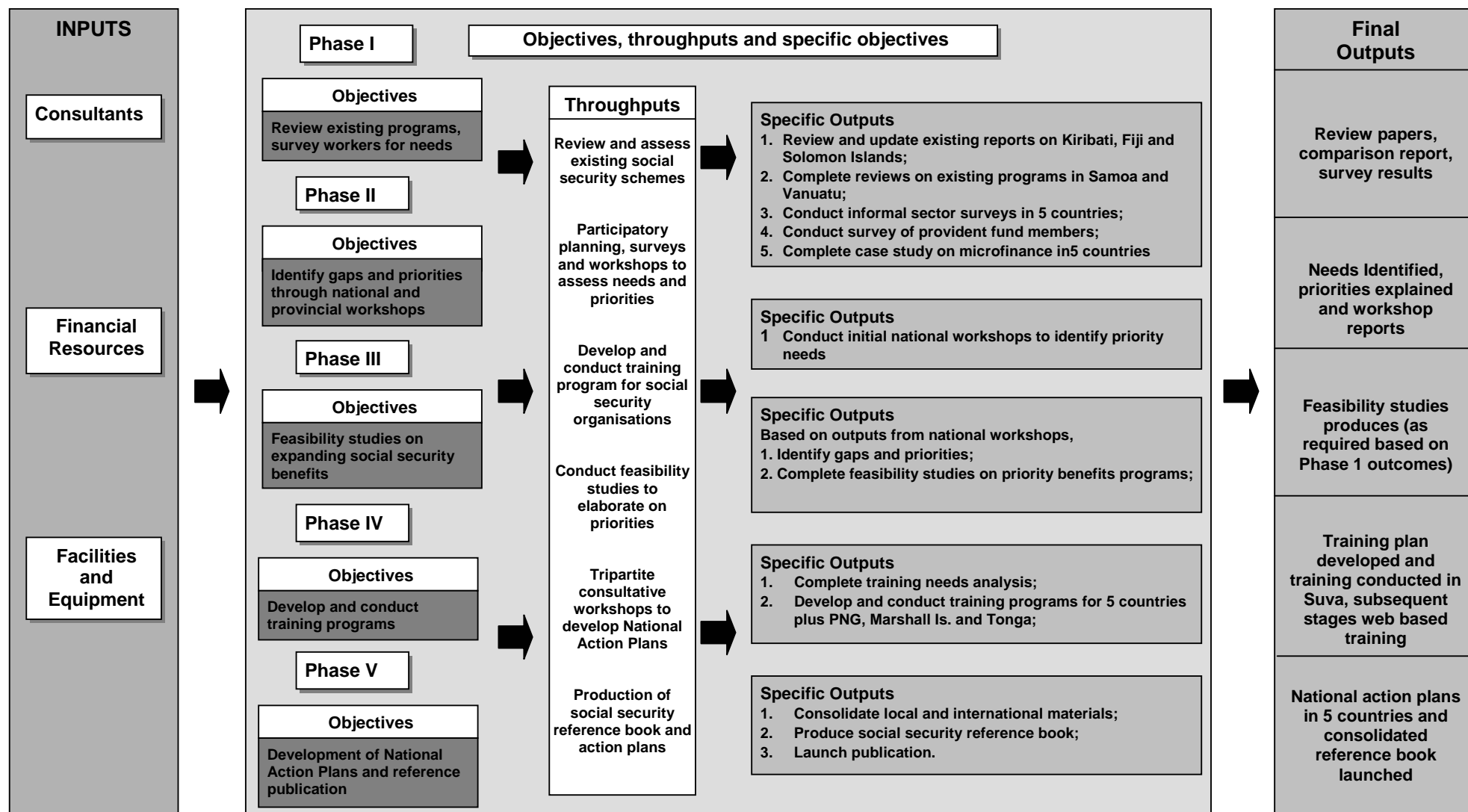


Figure 1.2 Conceptual framework for project social security in Pacific Island countries



Chapter 2 Overview of Social Protection Systems

2.1 The scope of social security

Social security is widely accepted as the protection which society provides for its members, through a series of public measures to:

- Offset the absence or substantial reduction of income from work resulting from the contingencies of sickness, maternity, employment injury, unemployment, invalidity, old age, and death,
- Provide them with health care, and
- Provide financial support to families with children.

These are the basic contingencies specified in the Social Security (Minimum Standards) Convention, No.102 of 1952 which is used by developing countries as a guide in the planning of social security systems.

The ILO in pursuit of its overall goal of achieving *Decent Work* for all men and women has adopted as one of its four strategic objectives: *Enhance the coverage and effectiveness of social protection for all*. The essential point is that coverage in this context refers to meaningful, appropriate as well as personal membership of a scheme. The three dimensions in social security coverage strategies are:

- Population coverage;
- Range of coverage, as regards the contingencies for which protection is provided; and
- Level of benefit or the effectiveness of the system of protection.

Consequently it is necessary to take into account not only the contingencies which are covered but the method of organising the social protection. The main different methods of providing social security in developing countries are:

- Social insurance (schemes financed by contributions that pool resources in separate funds for each branch of insurance),
- Social assistance (tax-financed, non-contributory benefits, provided only to the vulnerable population),
- Universal benefits (tax-financed benefits provided without being means-tested),
- Employer's liability provisions (obligations

imposed by statute on employers to provide benefits to workers in prescribed circumstances such as employment injury, sickness, maternity and termination of employment; and

- National provident funds (defined contribution schemes with individual accounts).

In the following sections, some key issues relating to social security are explained.

2.2 Why do we need social security?

People can achieve income security not only through productive employment, savings and accumulated assets (such as land and housing), but also through social protection mechanisms. These mechanisms function not only as a protective but also as a productive factor. Workers need income security to make long-term plans for themselves and their families and to prevent them from becoming trapped in a poverty cycle. Workers' income security has also positive effects on the economy, since it makes effective demand more predictable and provides enterprises with a more productive and flexible workforce.

One of the fundamental rights of people is that they must have access to a minimum level of income security that ranges from provision of basic health services and basic food, shelter and educational rights in the poorest countries to more elaborate income security schemes in the industrialized countries. Everyone of working age has a responsibility to contribute to the social and economic progress of the community or country he or she lives in and should be given the opportunity to do so. In exchange, all have the right to a fair share of the income and wealth of the country or community.

Social security is said to discourage people from working and saving, to reduce international competitiveness and employment creation, and to encourage people to withdraw from the labour market prematurely. On the other hand, social security can also be seen to have a number of very positive economic effects. It can help to make people capable of earning an income and to

increase their productive potential; it may help to maintain effective demand at the national level; and it may help create conditions, in which a market economy can flourish, notably by encouraging workers to accept innovation and change. Social security and decent employment are both necessary components for a market economy to provide income security for all. Social security is also designed to have important positive effects on society as a whole, by promoting social cohesion and a general feeling of security among its members.

It has been suggested by various commentators that social security contributes to economic growth by raising labour productivity and enhancing social stability. Various types of social security are particularly relevant to labour productivity:

Health care systems help to maintain workers in good health and to cure those who become sick. Poor health is a major cause of low productivity in many developing countries where workers do not have access to adequate health care. Not only does it limit their ability to cope with the physical demands of their jobs, but it also leads to absence due to sickness and can seriously undermine efficiency even among workers who do not absent themselves from work. Care for workers' family members helps to ensure the good health of the future labour force.

Old-age pensions systems ease the departure of older workers from the labour force, thereby helping to avoid the problem of workers remaining in employment when their productivity has fallen to a low level.

Cash sickness benefit contributes to the recovery of sick workers by removing the financial pressure to carry on working when ill. It also helps to maintain the productivity of other workers by countering the spread of infection.

Maternity protection is of particular importance for the reproduction of a healthy workforce, as well as for the maintenance of the health of working mothers.

Employment injury schemes are playing an increasingly important role in preventing work-related accidents and sickness and in rehabilitating workers who fall victim to these events. Such activities are of considerable relevance to productivity, given the enormous

numbers of days off work attributable to avoidable health risks.

Unemployment benefit provides unemployed workers with the breathing space they need in order to find suitable work which makes full use of their talents and potential; the associated employment and training services are also highly relevant in this respect. Workfare and other active measures ensure that unemployment benefit is also used to reshape the workforce over time to accommodate change.

Child benefits (and other cash benefits provided when the breadwinner is unable to work) help to ensure that families with children have enough income to provide proper nutrition and a healthy living environment for their children. In developing countries, child benefits can also be a powerful instrument to combat child labour and promote school attendance. Children can thus receive an education that will permit them in the long run to attain much higher levels of productivity and income.

2.3 What do the different social security terms mean?

It may be instructive to clarify some of the terminology used in relation to social security.

Social Protection is sometimes used interchangeably with *social security* or *social safety net* but the term can be used in a broader sense. From a point of view of income security, social protection incorporates non-statutory or private measures with a similar objective (such as community-based schemes and occupational pension schemes), in addition to the social security measures such as social assistance and social insurance¹. Other international organizations use this term in a more generalized sense. According to the Asian Development Bank², *social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss of income*. The World Bank³ discusses social

¹ ILO, World Labour Report 2000 : Income security and social protection in a changing world.

² ADB, Social Protection Strategy, 2003

³ Holzmann R. and Jorgensen S, "Social Risk Management : A new conceptual framework for Social Protection and beyond", Social Protection Discussion Paper, 2000

protection from a point of view of social risk management and defines social protection as *public interventions to assist individuals, households, and communities better manage risk, and provide support to the critically poor.*

As we have seen thus far, different international organizations propose different definitions of the term social protection. Generally, by social protection it is meant to capture a broader and more inclusive concept than social security (for instance the scope of social protection also covers non-statutory schemes and private initiatives); and, in the context of developing countries, social protection is closely related to poverty reduction and sustainable economic and human development.

Social Security is one of the most common terms used to describe a wide spectrum of public interventions against a set of defined risks. A widely accepted definition by the ILO Social Security (Minimum Standards) Convention

No.102 is *the protection which society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by the absence or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age or death; the provision of medical care; and, the provision of subsidies to families with children.*

Social Safety Net is used to refer to public arrangements to ensure that any individual can obtain assistance to avoid falling into absolute poverty. Social assistance is a typical example of a social safety net. Recently, this term was used to refer to (usually short-term) state interventions to mitigate the immediate impact of structural and economic adjustments such as the transition from planned to market economies and of economic crises such as the one that took place in Asia in 1997.

2.4 What are the options for funding social security?

The following table summarizes five major issues in social security funding, and compares the basic advantages and disadvantages of each option.

Table 2.1 Social security funding options

Advantages	Disadvantages
Contributions - This is a debate about who should contribute - whether workers and employers pay contributions to be eligible for benefits (Social Insurance) or whether the government funds the schemes out of taxation revenue (universal scheme). Social insurance funds can be semi-independent from government and used exclusively for the payment of benefits and not subject to economic variations. Universal schemes provide fixed rates for all citizens, usually means tested	
Government funding provides for universal schemes that are strong in social solidarity and transfer of wealth to the lower paid workers. They can be means tested and targeted at those most in need. Payments under the schemes are the same for all eligible beneficiaries	Government funding is subject to taxation and collection capacities and requires strong governance, strong accountability and no corruption if the schemes are to be sustainable in the long term. Higher paid workers are often dissatisfied with their benefits when compared to their contributions (taxes). When there is a high ratio of beneficiaries to contributors (taxpayers) as is the case in developing and aging countries the demand on the small workforce may be untenable.
Privatization - This is a debate about who should manage the funds - whether social security funds should be managed by the government or by private enterprise. Typically funds are managed in trust for the contributors (Trust Funds) by a tripartite Board of Directors independent of government.	
Private sector funding can be more efficient at investing funds - and competition between funds will	Private sector funding can pose a greater risk of corruption or mismanagement; competition can

Advantages	Disadvantages
maximise the efficiency; the funds will be safer because they are less subject to government control; and setting up pension funds in this way promotes more rapid development of the financial sector that benefits the whole economy.	increase costs (because of costs of advertising and contributors changing funds); the government will have to play a major role in any case (through regulation); and it is difficult for contributors to make informed choices about funds.
Advance funding - This is a debate about when the funds for pensions should be provided and by whom. Should a person's pension be paid from funds previously paid in by or for that person (and kept "in storage" until the time comes for the person to be paid) (Advance funding)? Or should the pension be paid from the contributions of current workers (pay as you go (PAYG))?	
Advance funding means setting money aside now which makes it more likely that the government will be able to meet its obligations later (when the population has aged); that the interest the pension funds will earn will increase the amount of money available; and that it will increase national savings that can be invested productively.	Advance funding is not practical because it is impossible to advance fund without finding money to pay for pensions that cannot be fully prefunded (existing pensioners and those who began their working career some time before the decision); that large accumulations of pension funds may increase competition for investors and reduce rates of return; and enforced saving may reduce other saving.
Diversification - This is a debate about how the funds should be invested - whether they should be limited to government bonds or whether, and to what extent, they should be invested in equities. Investments in stock markets have given much better returns than government bonds; however, investment in stock markets can be risky and volatile	
Investments in stock markets have given much better returns than government bonds; that pensions can promote economic growth; and that pensioners should have more choice about how their funds are invested.	Investment in stock markets is too risky; that if the government controlled the pension fund it would effectively control a lot of the private sector; and that it makes corruption more likely.
Defined contribution or Defined benefit - This is a debate about how pension should be calculated - whether a person's pension should be limited to what they have contributed (plus interest that the money has earned), this is <i>defined contribution</i> . Or should the pension be an amount that is related to something else (such as a proportion of final salary or average salaries), this is <i>defined benefit</i>	
For defined contribution - there is no cost to the government; it encourages saving; rewards those who save most; and increases understanding about the costs of population ageing.	Against defined contribution - it does not provide adequate income in retirement for poorer workers; it helps least those workers who need help most; and it is more complex to administer

In practice, social security systems in most countries have elements of all of the different funding components but to a different extent and they are mixed in different ways. For example, many have some defined benefit component (social pension) and some defined contribution (individual account). Most do not aim to be fully-funded but aim for different degrees of advance funding. Some allow investment in equities but it is restricted in different ways. Funding also entails income transfer between generations and affects an individual's choice in savings and retirement. In reality what happens in most countries is that social security programs are predominantly funded by contributions from employers and workers. Social assistance

programs specifically targeted at the poor and vulnerable are generally funded by the government.

2.5 Social insurance

Social insurance is conspicuously lacking in most South Pacific countries, including Fiji, Kiribati, Samoa the Solomon Islands and Vanuatu. Social insurance is the technique used in the great majority of countries worldwide to develop social security.⁴ The basic principle is the pooling of risks in a fund which can be applied to all nine of

⁴ The Marshall Islands, Federated States of Micronesia and Palau benefit from the social security system of the USA.

the social security contingencies. It is also common to find that social insurance has replaced techniques such as employer liability as part of the strategies for improving social security provisions in workers' compensation schemes. This has been much in evidence in numerous developing countries in recent decades which have replaced employer liability schemes and national provident funds, with social insurance schemes. Improving access to health care through social health insurance has also attracted increasingly high priorities in recent years.

It is also true that some countries, notably in Latin America, have replaced pension insurance schemes with defined contribution schemes. These different trends are discussed in detail in the relevant feasibility studies.

The adoption of social insurance principles is in conformity with two of the essential requirements found in the various ILO standards:

- Cash benefits should be in the form of periodical payments, not lump sums;
- The duration may be limited in respect of medical care and cash benefits for sickness, maternity, and unemployment, but should be throughout the contingency in principle for contingencies such as employment injury, old age, permanent invalidity, and survivorship.

2.6 Social assistance

Social assistance is to be found in virtually all industrialized countries, where it serves as a safety net to the other social protection schemes, including social insurance and thus to relieve poverty. In developing countries social assistance is much less widespread. Where it exists, it is usually restricted to just one or two categories of the population, such as assistance to the elderly in the form of universal pension schemes like those in Kiribati and Samoa.

The relative paucity of social assistance schemes in the developing world testifies to the problems which many governments have in devoting adequate resources to it. This should not be seen purely as a reflection of the low absolute level of national income or of government revenue. It may be questioned whether governments, in establishing their priorities, always give sufficient weight to their social assistance schemes, whose

beneficiaries are rarely in a position of political strength.

Social assistance is targeted only at those in need and the means test can in theory be made rigorous enough to exclude all but those whose needs are greatest. In practice things tend to be different, even in the most sophisticated social assistance systems. On the one hand, no means test is foolproof, some people who are not eligible nevertheless succeed in obtaining benefits — particularly in countries where there is a thriving informal economy. Such errors are serious not only because they cost money, but above all because they undermine public confidence in the system. On the other hand, social assistance benefits fail to reach many of those in greatest need for one or more of the following reasons:

- They are unwilling to apply because of social stigma;
- They may be unaware of their rights under the legislation;
- They find it difficult to submit an application for benefit, as procedures are often complicated and time-consuming; and
- Social assistance is often subject to considerable administrative discretion, opening the way to favouritism and discrimination.

The more rigorous the means test, the greater the likelihood that people will be deterred from applying and that those in real need will fail to obtain benefit. Self-selection mechanisms are often more appropriate than means testing, especially in the context of developing countries. These tend to be used, for example, in the provision of paid work in labour-intensive projects and of basic food aid.

Means-tested social assistance has another major drawback, as it can discourage people from saving (or encourage *dissaving*) if they think that any savings they have will simply be deducted from the benefit that they would otherwise receive. Similarly, it may act as a disincentive from contributing to other forms of social protection. Thus it can help to create situations of need because of the perverse incentives inherent in means testing.

On the other hand, social assistance can be useful for specific vulnerable groups, such as the elderly and children. It may well be the only solution for widows who have not been able to contribute

themselves to pension schemes or whose husbands were not covered by survivors' insurance. It is often also a way of helping poor households with children; in various countries the provision of such benefits is now linked to school attendance where immunization or nutrition

programs are provided. This is the principle of *conditional transfer* or requiring beneficiaries to undertake some form of action in order to receive some assistance. This can be in the form of work for benefits (workfare) or bringing children to school in return for other assistance.

Chapter 3 Extension of Social Security Coverage

3.1 Introduction

Extending social security coverage to excluded populations is one of the chief priorities of the ILO in the framework of its global strategy aimed at ensuring that all men and women have decent work. It is estimated that only one in five people in the world has adequate social security coverage while half of the world's population is without any social security protection.

The International Labour Conference (ILC) in 2001 undertook a general discussion on social security and reached conclusions⁵ which call for highest priority to be given to policies and initiatives which can bring social security to those who are not covered by existing systems. The International Labour Conference of 2002⁶ confirmed the commitment to making decent work a reality for workers in the informal economy. The commitment to decent work is anchored in the Declaration of Philadelphia's affirmation of the right of everyone to conditions of freedom and dignity, of economic security and equal opportunity. The ILC sought to address the multitude of workers and enterprises who are often not recognized and protected under legal and regulatory frameworks and who are characterized by a high degree of vulnerability and poverty, and to redress these decent work deficits.

The promotion of decent work for all workers, women and men, irrespective of where they work, requires a broad strategy: realizing fundamental principles and rights at work; creating greater and better employment and income opportunities; *extending social protection*; and promoting social dialogue. These dimensions of decent work reinforce each other and comprise an integrated poverty reduction strategy. The challenge of reducing decent work deficits is greatest where work is performed outside the scope or application of the legal and institutional frameworks. In the world today, a majority of people work in the informal economy because

most are unable to find other jobs or start businesses in the formal economy.

In sub-Saharan Africa and South Asia it is estimated that only 5 to 10 per cent of the active population is covered by a statutory social security scheme, most of these being old-age pension schemes, in some cases also providing access to health care, but coverage is tending to fall. In Latin America coverage ranges from 10 to 80 per cent according to the country, but on the whole it is stagnant. In South East and East Asia, it ranges from 10 per cent in countries such as Cambodia to 100 per cent in the Republic of Korea for sickness insurance. In the transition countries of Europe, it lies between 50 and 80 per cent, and in some of the wealthiest industrialized countries there are still today increasing gaps in social security coverage. In general, worldwide it can be taken that only 20 per cent of workers enjoy adequate social security.

The progressive extension of social security eligibility is also one of the key elements in any national strategy for poverty reduction which aims to enhance social security for the poorest by improving core social safety nets and accelerating development in remote areas. ILO studies and experience in developing countries in Africa, Asia and Latin America support this concept.

The study into the progressive extension of social security eligibility to the wider population needs to examine the options for extension of eligibility to the excluded formal sector workers, and examine the needs of workers in the informal economy and in some cases for overseas migrant workers. The informal economy by its nature is difficult to quantify and the lack of a standard definition and categorization of workers and their distribution has resulted in a limited availability of statistical data relating to workers in the informal economy. This is particularly true in most Pacific countries, many of whom have not completed labour market surveys and rely completely on the limited labour information from population census conducted in five or ten year intervals.

This ILO project *Subregional Initiative on Social Security for the Pacific Island Countries*, aims to

⁵ Resolution and conclusions concerning social security, International Labour Conference, 89th Session, 2001.

⁶ Resolution concerning decent work and the informal economy - The General Conference of the International Labour Organization, meeting in its 90th Session, 2002.

identify categories of workers in the informal economy, to define their status in the relevant country, their priority social security needs and consider the feasibility of providing them with basic social security eligibility. To assist in this process a random survey of informal economy workers was undertaken in each country.

General

Social security in Pacific Island countries is generally available only to people in formal employment and who are obliged or entitled to participate in a variety of mostly savings schemes. These schemes provide cover for retirement, work accident, health, and death. The schemes are funded by contributions from employers, employees or a combination of contributions from both and managed by provident funds through tripartite boards of management.

The present social security programs in Pacific countries as in most developing countries were envisaged to capture a finite group of formal sector workers and ultimately extend the coverage over a number of years. This was facilitated by granting exemptions to various employers or employment categories in the initial legislation and regulations. However over time it is evident that in general, these exemptions have not been removed and many of the schemes differ little from their original inception decades ago.

The current social security eligibility extends to employees of the military, civil service and private companies above a prescribed staff size and total payroll. The remainder of the population employed in smaller enterprises, self-employed in the informal economy and the unemployed or aged, rely on private insurance or support from immediate and extended families and the local community. In the short term, it is likely that social security provisions may be extended to include more of the people employed in the formal sector and the self-employed. In the medium term additional programs of unemployment benefits and social assistance to selected sectors of the population may be possible. The extension of social security entitlements to the entire population will be a long-term goal in most Pacific countries.

3.2 The formal employment sector

The formal sector represents the more administratively visible part of the economy and society, namely the public and private corporate sector and comprises enterprises and the professional self-employed that have been accorded legal status and are regarded as legal entities.

This legal status is accorded through registration by professional associations, the Ministry of Labour and the Ministry of Trade and Industry, or their equivalents in each country. As legal entities, the enterprises are subject to labour laws administered by the Ministry of Labour and to the ILO conventions that have been accepted by the respective countries. The formal sector in the countries in the study ranges from about 25 to 40 percent of the economically active labour force.

The employment sectors in Pacific countries are measured by the national statistics departments in a national population census conducted every 5 or 10 years. Modifications through annual statistical returns from employers or by targeted labour market surveys of selected sectors of the economy are not common in Pacific countries. As a result the total dimension of the labour force is not necessarily complete in most countries. The basic classification of the formal sector is the *Legal Entity*, described as: *Legal status of a company/unit of economic activity based on the requirement to register with the appropriate government agencies; usually the Ministry of Labour and the Provident Fund.*

In most Pacific countries the bulk of the workforce is still employed in traditional agricultural occupations and most workers in the informal economy are in rural areas in the agricultural sector. The urban informal sector comprises those individuals and employers who have not been accorded legal status but who have commenced their operations often without the sanction or knowledge of the local authorities (e.g. home workers, transport operators and traders). Many enterprises in the informal economy may be registered with local authorities and finance regulators such as the Ministry of Finance or the taxation office but have not been accorded legal status under the definition of legal entity by the Ministry of Labour and have not been identified by the provident fund.

It was believed that growth in the formal sector workforce and industrial sectors would *trickle down* to the traditional sectors of the economy. Instead, urban industrialisation has tended to widen structural inequalities between the handful of leading sectors and the rest of the economy. The ILO concluded in the 1970s that the informal economy was both efficient and profitable and there emerged the view that it should be promoted as a strategy to tackle structural inequalities and to meet the basic needs of the poor. Continuing rural-urban migration and economic shocks caused by environmental conditions, conflict and poor governance reaffirmed the importance of the informal economy in terms of work and income generation.

While the formal economy has a tendency to produce *jobless growth*, the informal economy

continues to absorb the bulk of the job seekers who annually enter the labour market. These jobs are created with little capital and without any subsidy from the state. These informal enterprises often rely on indigenous resources, including recycled materials, and produce predominantly for local markets. The entrepreneurs mobilise their own financial resources via family networks, savings clubs and rotating credit systems. Accommodation for newcomers is provided and training given on the job. Many workers in the informal economy also maintain strong ties with their places of origin and often foster plans to return. Urban to rural remittances, particularly from the capital cities in Pacific countries and from expatriates working overseas, occur on a very large scale and for many village households this capital flow has even become the major source of household income.

Table 3.1 *Table of comparison between formal and informal economy*

FORMAL ECONOMY	INFORMAL ECONOMY
<p>Description</p> <ul style="list-style-type: none"> • Employees of large firms and in many cases multinational firms • Covered by labour laws and regulations • Generally capital intensive enterprises with relatively few workers, mechanised, often use expensive raw materials • A guaranteed standard in the final product • Employment conditions mostly regular hours & low wages • Fixed prices • Employment mostly in factories • Government and multinationals help to establish and maintain operations • Legal entities registered with appropriate government and local agencies • Employs predominantly males <p>Type of employment</p> <ul style="list-style-type: none"> • Typically manufacturing sector employment, both local and in multinational industries, mining, oil • Government employment such as the police, military and civil service • Service sector in offices, hotels, sales and administration • Self-employed professionals in medicine, law, accounting <p>Advantages</p> <ul style="list-style-type: none"> • Generally have access to unions and staff associations • Less susceptible to corruption and standover tactics • Uses some skilled and many unskilled workers • Access to compulsory social security • Provides permanent jobs and regular wages • Produces goods (like cars and food) for the emerging middle classes so that profits may remain within the country • Waste materials provide raw materials for the informal economy 	<p>Description</p> <ul style="list-style-type: none"> • Self-employed • Small scale/family enterprise • Little capital involved • Labour intensive with use of very few tools • Using cheap or recycled waste materials • Often a low standard in quality of goods • Irregular hours and uncertain wages • Prices rarely fixed and so negotiable (bartering) • Jobs often done in the home (cottage industry) or on the streets • Little or no government assistance • Often outside the law (illegal) • Employ mostly females and children <p>Type of employment</p> <ul style="list-style-type: none"> • Distributive-street peddlers and small stalls • Local transport • Small scale manufacturing such as wood, metals, textiles, carving etc • Services, selling food, clothes and fruit • Small scale industries such as food processing, tailoring and furniture repairs etc <p>Advantages</p> <ul style="list-style-type: none"> • Employs many unskilled workers • Jobs may provide some training and skills which might lead to better jobs in the future • Any profit will be used within the city or remitted to the rural areas • Uses local and waste materials—the products will be for local use by the informal sector, the lower paid people <p>Disadvantages</p> <ul style="list-style-type: none"> • Often not protected by local labour laws and regulations • Little access to loans or grants • Generally no access to unions or associations • Subject to corruption and coercion by unscrupulous authorities and individuals

There is a tendency to associate such informal sector activities with poverty. While it is true that many workers in this sector are poor, it cannot be assumed that earnings are necessarily lower than formal sector wages. Anecdotal studies suggest that incomes are not always lower than in the formal economy and whilst this may be true in urban areas most rural informal economy workers are poor or near poor.

Apart from generating work and income for a large proportion of the population in most cases more than 60 per cent, of total employment, the informal economy is also a major supplier and distributor of basic services and needs such as water, food, clothes and shelter. In urban areas the self-built housing sector meets a substantial amount of housing needs. Without the informal sector the majority of the urban population would have difficulty surviving in the city.

The key definition of informal employment in Pacific countries is the same as in about 21 other countries; that of unregistered enterprises or *enterprises without legal status* and in rural areas includes most of the population employed in traditional sectors as paid or unpaid workers. The composition of the informal sector in Pacific countries has not been well defined except in one or two countries.

3.3 The informal economy

The term *informal economy*⁷ refers to all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements. Workers in the informal economy include own-account workers in survival-type activities, such as street vendors, shoe-shiners, garbage collectors and scrap and rag-pickers; paid domestic workers employed by households; home workers and workers in sweatshops who are “disguised wage workers” in production chains; and the self-employed in micro-enterprises operating on their own or with contributing family workers or sometimes apprentices/employees.

Development of effective policy for the extension of social security coverage to the informal economy must be based on a better understanding of the target groups and the assessment of their social security needs and existing services. However, the informal economy by its nature is difficult to quantify and there is a limited availability of statistical data.

Though the workers in the informal economy consist of heterogeneous groups, Table 3.2 attempts to classify the workers in the (urban) informal economy in terms of access to and stability of the place of employment and the resources. This classification could help policy planners to develop progressive measures to extend the social security cover to workers in the informal economy. It may also assist in the identification of the poor and vulnerable groups in the informal economy.

⁷ Although the term “informal sector” has gained wide currency since its popularization by the ILO in the 1970s, more recently the ILO perceives this term inadequate because the workers and the enterprises in question do not fall within any one “sector” in the sense of a specific industry group or economic activity, and proposes to use an alternative term “informal economy” to encompass the expanding and increasingly diverse group of workers and enterprises operating informally in both rural and urban areas.

Table 3.2 Categories of workers in the informal economy

Category	Mobility Characteristic	Examples	Organisational Form	Labour force	Capital Stock	Use of Modern Technology
A	Highly mobile	Ambulant vendors Sidewalk sales, shoeshine Roadway newspaper and book sales Casual cigarette vendors Car washing Parking assistants	Unregistered Unlicensed	Single person	Minimal or zero	None
B	Mobile or home based	Mobile street food vendors Home food cooking Simple handicrafts	Unregistered Unlicensed	Single person	Small but visible	Very minimal
C	Semi-fixed or in recognised operating zones	Street craft stalls Fixed food stalls Minibus drivers and operators	Unregistered Informal licenses or rents	Single person or family labour	Modest, in fixed location	Relatively minor
D	Fixed location	Small shops Motor workshops Small timber and furniture makers Stalls in indoor central markets Traditional markets	Unregistered Informal and formal licences	Mainly family labour with some additional employment	Moderate	Some modern technology (e.g. phones, faxes, power machinery)
E	Professional self employed, fixed or home based	Accountants Medical practitioners	Unregistered Licensed or Members of associations	Usually single operation with employees	Moderate	Some specialist modern technology

One suggestion derived from this table is that a realistic strategy could be to extend the scope of the coverage from relatively organised workers with more regular income (categories D and E) to highly mobile workers who live on a day-to-day basis (category A). For a more comprehensive mapping of the excluded workers in the informal economy, further research is necessary to look into the dimensions and characteristics of each category of informal economy workers. The survey of the informal economy workers conducted as part of the project extends the knowledge base on the informal economy in Solomon Islands.

3.4 Identification of priority needs and contributory capacity

It is evident from the results of the survey of the informal economy workers that there is a high need for some form of social protection. The results confirm that health insurance is the highest priority, whereas work injury and age benefits were also high priorities in one survey, but old-age benefits and education loans were highest in other surveys. Whilst there is a demonstrated need for old-age benefits it seems that the premiums would be unaffordable to most

informal economy workers unless there was some form of subsidy.

The social security needs of those in the informal economy differ according to their social and family status (women, children, youths, the elderly), the degree of hazard in the particular occupation (e.g. small farmers, fishermen, drivers of mini buses), the work setting (at home, on the street, in a sweat shop), the milieu (communities more than establishments), and their ability to make regular contributions to the insurance fund.

In trying to develop appropriate mechanisms to cover the risks borne by workers in the informal economy, it is important to understand the range and types of risks that are present and how they may be prioritized. The strategy on how the informal economy workers may adopt to manage these risks must be evaluated. This would allow benefit packages and delivery systems to be designed that are fully responsive to the needs of workers in the informal economy.

In the case of the Fiji survey, the initial findings suggest that there will be very limited capacity for rural and urban informal economy workers to afford about FJD 40.00 per month for the modal

provident fund contributions in addition to premiums for other programs. Whereas formal sector workers and employers contribute 7.5 per cent of gross salary each for the provident fund contribution, it would be difficult for workers in the informal economy without an employee-employer relationship to contribute the average amount without any form of cost sharing or subsidy. This is demonstrated in the Fiji survey where about 19 percent of respondents indicated they could not make any contributions, 72 percent could pay up to FJD 10 per month and about 9 percent could pay more than FJD 10.00 per month. The survey findings for Solomon Islands are presented in chapter 5.

3.5 Strategies for extension of coverage

Without the introduction of effective measures to extend coverage, the proportion of the population in Pacific countries that are excluded from all social protection will increase considerably in the coming years.

In general, there is no single solution to achieve the goal of universal coverage; each programme must be designed to suit the national and local needs, priorities and resources. It should be noted that good governance and sustainability are prerequisite for any programmes. This ILO project has drawn on a range of strategies for improving and extending social security coverage. Some key elements of the strategies are:

- extension based on existing formal sector social security mechanism: social insurance, universal benefits and systems and social assistance programs which in Pacific countries centred around the provident funds;
- the promotion of and support for the development of decentralized systems deriving from local initiatives, in particular micro-insurance programs;
- introducing universal benefits or services financed from general state revenues such as the universal age persons allowance paid in Kiribati and Samoa;
- establishing or extending means-tested benefits or services (social assistance), also financed from general state revenues; and
- the design of linkages and bridges or interfaces between decentralized systems and other forms of social protection and

public initiatives. This includes the interface between the cash based urban service providers and the cash poor traditional systems.

In the project a number of feasibility studies were undertaken to address these options for each of the five countries. All of these options for extension impinge on a range of national issues like the economy, social cohesion, community resilience to poverty, individual and groups risks of falling into poverty. However, it should be stressed that the industrialized countries are not untouched by the problem of social security coverage and that policies for the extension of coverage have been applied there over the past few years. One example is Spain, which with the introduction of a national health service by the General Health Act of 1986, in the 1990s extended access to health care to 99.8 per cent of the population. Another example is France, which introduced universal health coverage in 2000 for those excluded from health insurance schemes. Various European countries also introduced minimum income programs in the 1980s and 1990s for those unable to benefit from existing income guarantee schemes.

3.6 Promoting micro-insurance schemes

Basic ideas

In the past *top down* government administered models have achieved little penetration into the informal economy and experienced low sustainability. This suggests that more emphasis should be placed on the development of decentralized *bottom up models* that will drive the design of programmes and services to the workers in the informal economy. Promotion of micro-insurance schemes based on group contributions would need to be considered as an alternative interim measure for informal economy workers. The underlying idea is to use the micro-insurance schemes managed by communities or other organized groups as a vehicle to provide social security for the informal economy. It should be noted that the target groups are those who earn above the poverty line but are outside the formal social security schemes. In many cases, the micro-insurance schemes are connected with income generating or micro-finance activities.

There are several advantages that support the success of this approach. Firstly, such schemes

are expected to be more accountable with the commitment by the leader and participation in management and sense of ownership by members. Secondly, these schemes can have benefits and contributions structures that are more responsive to the needs of the members.

Self-help groups supported by trained facilitators are seen as the key to successful implementation of a social security program for informal economy workers. The benefits of self-help groups are:

- Able to be developed in geographical, economic or occupational groups in accordance with the best practices. (experience from local trials suggest geographic groupings may offer the best potential for sustainability);
- Facilitators and group leaders can assist in the marketing and explanation of social security provisions to members of the group;
- Local access to information and assistance about contributions and claims thereby minimizing a major complaint about access to services;
- Mutual support by the facilitator and other group members to maintain continuity in the scheme during personal difficulty experienced by individual members, and
- Essential to the efficient collection of contributions by field officers visiting the groups on a regular basis thus maintaining low administrative cost of group contributions to the agency.

An inherent concern about micro-insurance schemes is fragility. Lack of necessary preconditions has caused many micro-insurance schemes to have a short life span before they become insolvent, usually as a result of imprecise assessment of risk, failure in investment and inadequate delivery of services. Smaller schemes may be less profitable, have higher administrative overheads, provide lower benefits, increased risk of insolvency and may in the longer term jeopardise the development of a future government subsidised system by legitimatising evasion through support of informal arrangements. It is also desirable that the number of schemes is kept small and the overall system does not become fragmented with a proliferation of schemes that will become difficult to control. Therefore, to extend the coverage by means of micro-schemes while ensuring their

sustainability, the government is expected to play an important role as a coordinator and as the guarantor of last resort. In the long run, therefore, the most sustainable arrangement may be to bring these decentralized schemes under the government umbrella in which self help groups can facilitate registration of members and collection of contributions.

In addition to micro-insurance, private insurance companies could provide the cover for injury and health, injury and death independently or in competition with micro-insurance schemes. Competitive rates for life insurance and injury insurance could be achieved for a scheme that covered informal economy workers given an adequate pool of contributors and appropriate re-insurance and risk guarantees.

In general, Pacific Island countries have relatively small populations and in some cases they are subject to severe environmental risks. This combination of small pool sizes and high risk places the micro fund at some degree of threat. The solutions of using a guarantor (the government), re-insurance or pooling with other funds either internally or externally, all require intensive consultation, good governance and efficient administration. A joint ILO/World Bank study produced some principles for social re-insurance and the Pacific sub-region offers some of the characteristics identified in the study. An example of the high cost of using private re-insurers can be seen in Kiribati where the re-insurance cost of the workers' compensation scheme for a small number of contributors (500 – 600) is almost 40 per cent of the premium. This level could not be sustained in a small micro-insurance scheme.

3.7 Relevant trials and experiences in microinsurance schemes for the informal economy

International experience

In most developing countries about 10-20 per cent of the workforce is covered by formal social security programs, another 30-40 per cent live below the poverty line and the remaining 40-60 per cent above the poverty line but not contributing (or entitled) to social security schemes. Annex 1 provides a summary of some international experience in informal economy social security schemes.

There have been a number of international trials aimed at extending the existing formal social security systems into the informal economy. These schemes target the vulnerable poor and the informal economy workers and great emphasis is placed on developing self-help groups as the basis for the organisational models for these schemes. In most schemes the government has a supporting role in terms of promotion, guarantor of some funds and contributor of subsidies in other cases. In almost all of these schemes international technical assistance has been provided for policy design, governance and in some cases to provide direct subsidies to promote and maintain the schemes. The other major stakeholders are various NGO's, cooperatives, trade unions and private insurers.

Research on the selected case studies shows the following typical characteristics of social protection programs for workers in the informal economy:

- All of the programs are voluntary and it is very difficult to administer compulsory membership to the schemes,
- Benefits and contributions are tailored to the needs of the individual groups who decide on their priorities,
- Programmes are flexible and offer a range of benefits options with contributions that reflect the affordability range of the target groups,
- Organisation of groups is essential to achieve a critical mass to minimise risk, maximise efficiency in collection of contributions and payment of benefits,
- In most cases some form of re-insurance or pooling of funds is essential if the schemes are to be covered for unforeseen risks and be sustainable in the long term,
- In some instances governments have accepted their responsibility for social security by providing contribution subsidies for some elements of insurance and in guaranteeing the funds against high risk (e.g. natural disasters etc),
- Most schemes relied on some form of partnership with private insurers or banks to provide the range of services, and
- Service delivery was usually provided by special agencies focused on the particular scheme or by NGOs supervised by a government agency.

3.8 Extending coverage of formal sector

Whenever social insurance schemes have been made compulsory for a limited section of the workforce, usually based on the size of the employer, the ultimate aim was to gradually extend coverage at a later date. There is some evidence of this in some Pacific countries, however, most have used voluntary compliance rather than legislate extension of compulsory contribution.

The original purpose of these regulations seems to have been to limit the pool of eligible employers to allow the provident fund organisation to develop its capacity to administer and enforce a manageable base of contributors. This process of progressive expansion of coverage to smaller and smaller enterprises is used elsewhere in the world. The way membership of provident funds has been restricted is to use the size of employer (number of employees), gross monthly salary or number of hours worked. In other schemes the self employed, contractors, family businesses and piece rate workers are also exempted from initial schemes. These avenues can encourage the understatement by employers of the size of their workforce, the total payroll or the number of hours worked by employees in order to evade contribution liability, to the disadvantage of many members of the workforce.

Compulsory membership of the social security scheme for all *formal sector* employees where an employer/employee relationship is clearly established, would simplify administration, compliance and marketing of the scheme and an improvement in contribution compliance rates could potentially increase the coverage of employees. An initial comparison in the five countries between the active members of provident funds and estimates of the formal sector workforce generally shows a high correlation. This implies that the compliance levels are high, however the fact that provident fund data is usually current and employment data is dated by some years makes a direct comparison very difficult. In most PICs public sector employees represent a significant proportion of the formal sector workforce and therefore compliance could be expected to be high. More direct observations are made in the country assessments in chapter 4.

The findings from the surveys and from general observations show that there is a widespread lack of understanding amongst employers and employees about social security in general and the contribution requirements to most provident funds in particular.

3.9 Informal economy studies

The purpose of the study relating to the informal economy as part of this project is based on the assumptions that any extension of social security would have to be piloted and implemented in phases by areas or provinces. This study will focus on areas and employment sectors that offer the potential to be easily identified, manageable, close to administrative centres; occupations that earn more regular incomes and demonstrate a need for social security.

The survey into the informal employment sector, conducted as part of this project, is one of many studies aimed at improving the understanding of what is a highly complex series of interrelationships where individual entrepreneurs override the normal legal constraints and the protective mechanisms of formal employment. The survey attempted to confine the scope to the social security issues by supplementing the quantitative measures available from statistics⁸ and other studies with a small-scale geographical survey to improve the qualitative understanding of the social security needs of selected elements of this vast employment sector. The surveys also aimed to supplement the available data about the informal economy.

The surveys were conducted in each country to obtain primary indicators of social security needs but also to provide information that may support the establishment of a future pilot study that could assist in the design and testing of a social security program to meet the needs of informal sector workers. The surveys concentrated on the two major components of the informal employment sector in urban and rural areas. The surveys were conducted in the geographical areas in proportion to their informal sector work force and based on an analysis of the composition of the informal economy.

Because of the concentration of the population in rural areas in most Pacific countries where up to 76 per cent of families may be devoted to agriculture for income and or subsistence, then informal sector employment is correlated strongly to agricultural activities.

The definition and classification of the informal economy is difficult in many countries because comprehensive data is often unavailable and informal economy studies are often limited to selected employment sections. The broadest definition for the informal economy includes those workers who do not receive regular income and have no contracted or enforceable employer/employee relationship. This usually includes a predominance of self employed, casual and unpaid workers in family businesses and those not registered or subject to labour laws.

Options for classification can include degree of employment mobility and assets, geographical location or broad employment activities. In the case of most Pacific countries, the broad employment category appears to be an efficient classification parameter because of the limited range of occupations and the domination of the agricultural sector in employment of the population.

In the absence of any formal classification of the informal economy a reasonable occupation based classification is listed below. This classification was used to design the informal economy survey that would provide a close correlation with the structure of the informal economy and at the same time be able to be randomised within that structure.

Predominantly Rural

1. Farm and Farm Related Activities comprising subsistence farmers, small landholders in specialised or mixed farming, landless farm workers and unpaid family members.

2. Fishing,⁹ where this is the major income source. It is recognised that in some households income and subsistence will be derived by a combination of fishing and farming.

⁸ These include household income and expenditure surveys and specialist informal economy studies which have been conducted in some of the five countries

⁹ this applies to coastal local fishing and not to commercial operators who are clearly in the formal economy

Mostly Rural Some Urban

3. Home Workers including craft workers, mat weaving, garment making and housemaids.

4. Self Employed Workers including micro-entrepreneurs, small traders and miscellaneous enterprises.

Mostly Urban

5. Transport Industry Workers including taxi drivers, small repairers and other small transport passenger and freight services.

The surveys also provided information about social security as it may apply in Pacific countries i.e. social insurance for selected life events, as it was anticipated that many people would have little understanding of the concept. The choice of employment category and location was based on proximity to major cities, earnings capacity, high lifestyle risk and potential to create groups of workers with similar work and life interests. The potential to administer and monitor a future pilot scheme and a subsequent social security program was also a key consideration.

The survey data collection form was constructed in four parts; (i) personal details, (ii) education, (iii) employment, income details, (iv) social security needs, priorities and desire to contribute. A summary of the key findings are presented below and the complete survey is provided as chapter 5.

3.10 Other legislative considerations

There are other legislative provisions that relate to liability for social security contributions that should be examined. An example is social security contributions for employees of diplomatic missions that are contained in the *Vienna Convention on Diplomatic Relations, 1961. Article 33*. This convention provides for local staff employed by diplomatic missions including agencies such as the United Nations missions, and projects are subject to the local laws on social security contribution. This convention would also apply to all of the international missions in Pacific Island countries. While most diplomatic missions provide some social security protection for their regular national employees during the term of their contracts, employees on short term contracts may benefit from only minimal, short term cover or no cover at all - leaving such workers vulnerable when their contracts end or even while they are

actually still employed. A more in-depth study of compliance with conventions such as this one should be included as part of any extension of social security coverage.

3.11 Compulsory vs. voluntary membership

The rights to universal social security coverage by all members of society have generally been endorsed by the government and people in Pacific countries and this is supported by the commitments made in the national development programs¹⁰ in each of the five countries in this project, including Solomon Islands.

Voluntary membership can only be seen as a transitional strategy to alleviate temporary government budgetary constraints but in the long term the government must accept its responsibility to provide for a minimum social security system for all citizens. Inequities between the personal contributions from formal sector employees and informal sector workers are huge which creates a sustainability problem for voluntary schemes, the very schemes that are designed to protect the most vulnerable informal sector and poorest workers. Voluntary membership carries with it some serious risks of adverse selection, limitations in the pooling principle, drift of formal sector workers away from their current schemes into a cheaper informal scheme and ease of withdrawing from a voluntary scheme.

Attempts to extend existing social security to cover the self employed have met with mixed success. Few people join these schemes voluntarily and many are either unwilling or unable to pay the combined employer and employee contribution. Likewise compulsory cover is difficult to achieve especially in the areas of identification, registration and collection of contributions. Some success has been obtained by creating special schemes for the self employed that can adapt the contribution rate and services to the needs of the self employed. These programs are more successful when they are accompanied by some form of subsidisation.

¹⁰ The references to social security in the plans vary considerably. However the general thrust is along the lines of people's welfare, development and achieving the MDG's. The individual comments are described in the separate country reports in later parts of the report

A summary of likely extension proposals could see priority placed on compulsory schemes (formal sector, self employed etc.), capacity building in the institutions, encouragement of an informal economy scheme through self-help, and voluntary schemes supported by the government.

3.12 Social security institutions for extension of social security coverage

The main national institutions capable of delivering expanded social security programs in PICs are the provident funds; however transition from a provident fund to a social security institution would require substantial changes to the provident funds. The major weaknesses in provident funds are the role, which is closer to insurance companies than social security organisations, their limited access and outlets across most countries, their limited exposure to customer service, and limited personal data holdings and capacity to capture and hold data on individual members. The private insurance companies may also be in a position to administer private insurance or superannuation schemes using their existing group schemes that have been developed on a group risk basis. Whilst extension of social security coverage is welcome it is also desirable that the number of schemes is kept small and the overall system does not become fragmented with a proliferation of schemes that will become difficult to control. Smaller schemes may be less profitable, have higher administrative overheads, provide lower benefits, increased risk of insolvency and may in the longer term jeopardise the development of a future government subsidised system.

An ideal social security system should maximise the performance of existing institutions within the bounds of current legislation by treating all employer/employee relationships as formal sector workers and subject to compulsory social security contributions. This could allow the creation of special cases for the remainder of truly informal sector workers. In the short term it is most likely that provident funds could coordinate a social security scheme for informal sector workers alone or jointly with private insurance companies by delivering flexible policies to group schemes through local facilitators.

3.13 Capacity for provident funds to extend membership

In all provident funds the primary customer focus is on the employers who are responsible for registration of their employees in the schemes, payment of monthly contributions, and representing their employees' social insurance affairs. The service delivery concept is based on group collections of contributions and this has shaped the organisational structure. The focus should be changed more towards the individual member in terms of access to services, information, marketing and privacy. Whilst some provident funds have the option of storing additional personal data like member addresses, most do not do so because of the need to maintain the data. The concept of maintaining accurate contact data has a low priority in provident fund operations. The ability to have direct contact with members, without using the employer as a broker is considered essential in the longer term. A cost estimate has not been made to undertake this change in focus but it is expected at a minimum that IT systems will have to be upgraded as well as changes to organisation wide staffing and property models.

It is not proposed that the employer group collection methods be changed as they have proven to be efficient; however additional collection methods need to be devised if smaller enterprises and self-employed workers are included in the membership of provident funds. This may include the user of field officers employed by the funds, as paid agents or NGO's paid a commission for servicing informal sector groups.

3.13.1 Service Delivery Networks

To support extension of membership the service delivery networks would need to be expanded in all PICs to ensure reasonable levels of access and equity for all members and to facilitate the smaller contributors. Most provident funds in PICs have few service outlets and in the case of Solomon Islands there are only three (Honiara, Auki and Giza).

3.13.2 Process and Administrative Considerations

The following considerations on administration and technology are initial observations made by the project in the initial visitations program and they are general and relate to all provident funds in the project countries. These considerations were expanded and developed in detail in the

study on Operations and IT in SINPF contained in Chapter 19:

- The membership process needs to be enhanced to involve individual members in their social security investment;
- Provident fund performance needs to improve the returns on investment and lower the relative administration costs to make the fund more attractive to members by increasing the long term benefits to members;
- Improvement of the benefits provided to members and to introduce new social security benefits in the medium term such as unemployment insurance, maternity benefits, regular pensions in lieu of lump sum payments, accident insurance and possible social assistance in the long term;
- Improved access to services by distributing access to remote areas by the use of part-time services, authorised agents, telephone services and further devolution of branch offices;
- Reviewing the business needs to improve targeting of services and needs to customer groups in the currently excluded employment sectors;
- Developing effective marketing programs to better inform the potential members about provident fund social security services, eligibility, benefits and procedures.
- In some provident funds segregation of the cancelled memberships and identification of active and non active members will assist management and processing; and
- Development of a new integrated registration process that uses additional data about individuals, includes a stringent proof of identity process and provides customers with their rights and obligations of membership, functions that are all essential in a social security organisation.

(i) ***Opportunities for Regional Cooperation on Social Security***

Given the similarities in many PICs and the range of cooperation that has occurred in organisations such as USP and PICTA, with immigration activities and in a range of economic and trade areas, the opportunities for social security cooperation should be explored. There are some obvious opportunities in the administrative and IT areas where sharing of common systems and policies between provident funds would facilitate easier maintenance and reduce costs. An association of IT sections may minimise the impact of the loss in skilled staff and recruitment difficulties faced by provident funds for specialist staff.

Further investigation into social re-insurance, funds pooling and reciprocal benefit arrangements should be explored. The biennial conference of PIC Provident Fund CEOs is an example that could be extended.

3.14 Conclusions

Those lacking social protection tend to belong to the economically weaker sections of society. The aim in the long term should be to bring them into a national system covering the whole population (or the entire labour force, as the case may be) where they can benefit from risk-pooling and solidarity. In the medium term this may be possible for middle-income developing countries, but not for the low-income countries. Such schemes are difficult to enforce, especially for some sections of the self-employed, but plans should be drawn up (and included in legislation) to extend compulsory coverage in a step-by-step manner, at least to all employees.

The state may facilitate and support micro-insurance schemes for those whom compulsory schemes are for the time being unable to reach, although it is clear that many of those in greatest need will never choose or be able to contribute to such schemes and will thus never benefit from any support which the state provides to them. Micro-insurance schemes should be encouraged to develop in a way that will facilitate their possible integration into the national scheme and eventually the generalization of compulsory coverage.

Apart from contributory schemes, the other main types of social protection are financed from general government revenue and may take the form of means-tested or universal benefits. Governments in developing countries have been

slow to develop either of these, being already under intense pressure to cut existing public expenditure, within the framework of structural adjustment programmes. However, such benefits need not be very costly: the category of persons eligible can be quite narrowly defined, at least at the initial stage, in order to limit the impact on the state budget. Over time, as the benefits prove their worth and gain political support, it should be possible to devote greater resources to them and to provide them on a less restrictive basis. Both types of benefit provided by the state can help those who are in greatest need. Universal benefits tend to cost more but they are simple to administer and they are a foundation on which individuals can build better income security for themselves and their families. They can be a powerful tool to promote gender equality and, more generally, to enhance individual autonomy, since they can free people from destitution without subjecting them to the controls and conditions usually associated with poor relief.

The net cost to government of providing a universal scheme should be fully investigated and

the returns via value added taxation, income taxes (after a number of financial exchanges) and local economic growth should be included in the calculation model.

The goal of social protection is not mere survival, but social inclusion and the preservation of human dignity. As governments seek to extend coverage, they would do well to study the experience of countries where social security is popular and enjoys a high degree of public support. The huge task of extending social protection is one for which they will need all the public support they can get. There are no simple solutions, and the prospects of success of the various strategies will vary according to the national context.

More research, accompanied by experimentation and innovation, can help to inform policy to achieve progress towards ensuring that all working people and their families enjoy decent social protection.

Chapter 4 Country Overview and Social Security Review

Box 4.1 Demographic summary of Solomon Islands

- Land area: 28,369 square kilometres.
- Population: 450,000 (est. for 2001).
- Average annual population growth rate: 2.8 per cent.
- Population density (persons per km²): 13.
- Life expectancy: 66 (male), 71 (female).
- GDP: USBD344 million (1999). Per person: USBD771.
- Major Industries: logging, fisheries, mining, palm oil, copra.¹

Figure 4.1 The Solomon Islands location



4.1 Introduction

4.1.1 Vulnerability of the Solomon Islands

There has been extensive documentation of the susceptibility of island states to external economic fluctuations and environmental shocks, even minimal ones. The Commonwealth Secretariat has developed an index which ranks 111 developing countries (34 small and 77 large –

over 1.5 million population – for which data were available) according to measurable components of exposure and resilience to external shocks. Income growth volatility is the most apparent manifestation of vulnerability. The most significant three determinants of income volatility identified by the Commonwealth are:

- Lack of diversification (measured by UNCTADs diversification index),
- Export dependence (indicated by share of exports in GDP), and
- The impact of natural disasters (represented by the portion of population affected, considering cumulative frequency and impact over the previous 27 years).

These measures of volatility are combined into a composite vulnerability index weighted by average GDP as a proxy for resilience (the second component of the Commonwealth index). Of the 28 most highly vulnerable countries, 26 (92 per cent) are small states and 18 (64 per cent) of these are island states; and the most highly vulnerable category includes six PICs: Fiji, Kiribati, Samoa, the Solomon Islands, Tonga and Vanuatu.

UNDP notes that *social statistics are particularly hard to locate and difficult to use because they are often unreliable or outdated. It leaves us without critical indicators of development.* Without better information on trends and more disaggregating, however, there is some degree of speculation regarding which issues are most serious (and require immediate attention) and which trends are genuinely improving. In the case of Solomon Islands, however, not even poor data can obscure the issues of concern: poor economic management, poor governance and social conflicts arising from uneven development

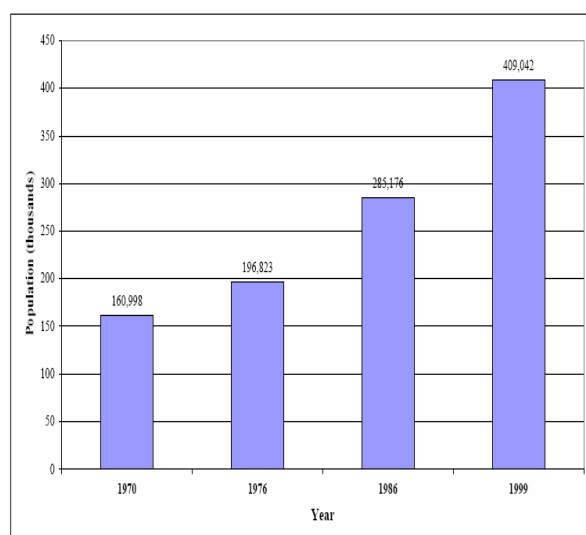
4.1.2 Population¹¹

The national population and housing census of the Solomon Islands reveals a total population of 409,042 at census night, 21-22 November 1999. Compared to the 1986 census this implies a population increase of 43 per cent, which

¹¹ Sourced from Solomon Islands Population and Housing Census: Main Results

corresponds to an annual growth rate of 2.8 per cent. Although this means a substantial decline in growth rate, population increase in the Solomon Islands remains among the highest in the world. Figure 4.2 presents the population as found for the Solomon Islands in the last four censuses.

Figure 4.2 Total population in census years



Source: 1999 Census report

Out of the total population, 406,598 people (99.4 per cent) were Solomon Islands citizens. Around half of all foreigners were citizens of neighbouring countries in Oceania, Papua New Guinea and Australia being the most important countries of origin of foreigners. The capital Honiara with a population of 49,107 is by far the largest urban centre, followed by Noro (3,482 population), Gizo (2,960), Auki (1,606) and Tulagi (1,333). All provincial administrative centres, Honiara and Noro combined constitute an urban sector of 60,719 people, which is nearly 15 per cent of the total population.

4.1.3 Geographic distribution

Table 4.1 gives an overview of the population and population growth per province. For more detailed information on population in each ward refer to Annex 2. Malaita remains the province with the largest population. With over 122 thousand people it represents nearly 30 per cent of the total population of the Solomon Islands. At the other end, Rennell-Bellona province represents less than 1 per cent of the total population (2,377 persons).

There is a considerable variation in annual population increase between the different provinces, Guadalcanal (1.5 per cent) and Temotu (1.9 per cent) having the lowest growth rates and Western (3.2 per cent), Malaita (3.3 per cent) and Honiara (3.8 per cent) having the highest. Although the country's overall growth rate has declined since the previous census, four out of ten provinces (Choiseul, Western, Rennell-Bellona and Malaita) show rates of increase that are higher than in the years preceding the 1986 census. Detailed analysis of census data will show the contribution of natural growth (the net effect of births and deaths) and (internal) migration to population development in the country and its various administrative divisions.

Table 4.1 Total population per province by census year and inter-census annual population increase¹²

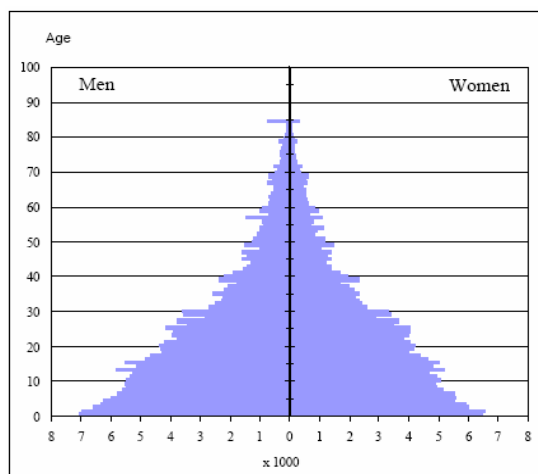
Province	Population in census years				% of total population in 1999	Annual population increase		
	1970	1976	1986	1999		1970-76	1976-86	1986-99
Solomon Islands	160,998	196,823	285,176	409,042	100%	3,4	3,5	2,8
Choiseul	8,017	10,349	13,569	20,008	5%	4,3	2,8	3,0
Western	24,214	29,980	41,681	62,739	15%	3,6	3,1	3,2
Isabel	8,653	10,420	14,616	20,421	5%	3,1	3,2	2,6
Central	9,418	11,683	16,655	21,577	5%	3,7	3,4	2,0
Rennell-Bellona	1,504	1,893	1,802	2,377	1%	3,9	-0,5	2,2
Guadalcanal	23,996	31,677	49,831	60,275	15%	4,7	4,3	1,5
Malaita	51,722	60,043	80,032	122,620	30%	2,5	2,7	3,3
Makira-Ulawa	12,390	14,891	21,796	31,006	8%	3,1	3,6	2,7
Temotu	9,078	10,945	14,781	18,912	5%	3,2	2,8	1,9
Honiara	12,006	14,942	30,413	49,107	12%	3,7	6,8	3,8

Source: 1999 Census report

4.1.4 Population by age and sex

Figure 4.3 shows the structure of the Solomon Islands population by age and sex. The vertical axis gives age in years from 0 to 100; the horizontal axis gives the number of people (times 1,000), with males on the left side and females on the right side. Each horizontal bar, therefore, indicates the number of men and women of a single year of age.

¹² The table represents population figures according to current provincial boundaries

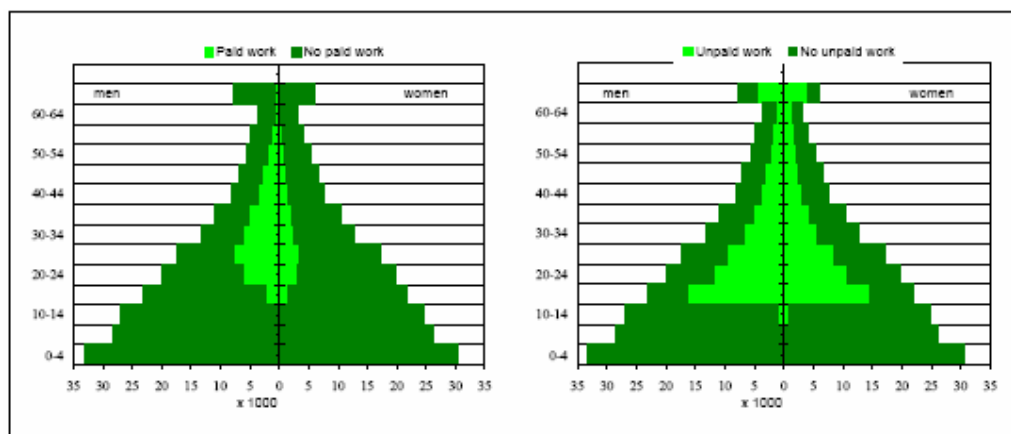
Figure 4.3 Population by age and sex

The pronounced pyramid shape indicates the large volume of the younger generations. The census data reveal that 41.5 per cent of the total population (nearly 170,000) is under 15 years of age. Given this population structure, it can be expected that in the next decades the Solomon Islands will experience a continuous high rate of

population growth. A second noticeable feature of the population composition is the excess of males over females, a characteristic that was also found in the previous censuses of 1970, 1976 and 1986. As shown in Annex 1, the population of the Solomon Islands consisted of 211,381 males and 197,661 females. Especially in the higher age ranges men increasingly outnumber women, which is contrary to global trends. Further analysis has to reveal whether this phenomenon should be attributed to age-reporting errors, excess mortality of women or any other cause.

4.1.5 Economic activities

The 1999 census underscores the importance of the subsistence sector in the economy of the Solomon Islands. Comparison of Figure 4.4 shows the relative importance of paid (Figure 4.4a) and unpaid (4.4b) economic activities in terms of number of people involved. The number of people involved in paid work is 57,472 (23 per cent of the population of 14 years of age and over), whereas the number involved in unpaid work is 111,905 (45 per cent).

Figure 4.4 Population by age and sex for paid and unpaid work

Source: 1999 Census report

Figure 4.4 shows the number of people involved in paid and unpaid work respectively, irrespective of whether they do unpaid and paid work.

Whereas involvement in unpaid activities gradually declines with age (from 69 per cent in the age category 15-19 to 42 per cent in ages 55-59), involvement in paid work concentrates in the age category 25-49. Another noticeable feature is the fact that paid work is dominated by males: nearly 40,000 males and only around 18,000 females reported doing paid work of any kind. Unpaid work is more equally distributed with a

slight overrepresentation of women (around 57,000 women against 55,000 men).

Nearly 28,000 people (around 18,000 men and 10,000 women) were looking for paid employment. Over the next ten years the number of young people entering the labour market will be close to 100,000. Assuming the present participation rate in the paid sector, this would imply the requirement of an additional 21,000 jobs.

4.1.6 Human development indicators in the census

Overall literacy in the population of 15 years of age and over is 76 per cent. A pronounced sex differentiation exists, since 83 per cent of the males of 15 years and over reported being able to read and write, whereas for women the figure was 68 per cent only. Highest literacy was found in Western province (93 per cent), Choiseul province (92 per cent) and Honiara (90 per cent), whereas the lowest was encountered in Temotu and Malaita provinces (60 per cent and 61 per cent respectively). In these provinces the difference between males and females was also most pronounced. Temotu has a literacy of 73 per cent for males and 49 per cent for females of 15 years and over. The corresponding figures for Malaita are 72 per cent and 51 per cent.

In the age range 5-14 years, 60,750 children (57 per cent) attended school during 1999. As attendance for boys and girls was almost equal (58 per cent and 57 per cent respectively), women seem to catch up in terms of educational attainment.

With respect to disability, 11,107 persons reported one or more type of disability. Problems with seeing (3,568), hearing (2,050) and moving (1,899) are the most frequent problems. A sizeable category (1,796) reported multiple problems.

The total population of 409,042 people was distributed over 65,014 households, which implies an average household size of 6.3 persons. The majority of households (63,404) concerned private households, the remainder (1,610) being collective households. Table 4.2 provides topical information about facilities available to households.

Table 4.2 Availability of selected household facilities

<i>Facility</i>	<i>Present (%)</i>
Access to piped drinking water	52%
Modern toilet facility	23%
Electricity	16%
Working radio	41%
Bednets	80%

Source: 1999 Census report

4.1.7 Relevance of the 1999 census data

Since a census provides a snapshot of the situation in a country at one particular point in time, it is imperative to repeat the operation at regular intervals in order to update the information in accordance with the latest developments. In principle, an inter-census period of 10 years is recommended, since this provides a data base that is sufficiently reliable for planning purposes and for acceptable projections and interpolations for the period between two censuses. With respect to the Solomon Islands, developments already superseded part of the information captured in the 1999 census. The country experienced two major upheavals connected to the current social unrest: the first in June 1999 and the second in June-July 2000. This especially affected the situation with regard to the geographical distribution of the population and economic activities. The population and housing census conducted in November 1999 largely captured the consequences of the first disruption. In particular, the large-scale movement of people leaving Guadalcanal and Honiara was adequately recorded. However, the movement following the subsequent turmoil in June 2000 outdates some of the information collected in November 1999. The above notwithstanding, the majority of census data retain their relevance for assessment of the situation in the Solomon Islands and for planning and policy development in numerous areas. Moreover, countries experiencing events like the one occurring in the Solomon Islands tend to return to the situation prior to the disturbance as peace is restored. In particular this refers to the distribution of the population. In this respect it is expected that as the country moves to a stable situation, the census data will regain much of the relevance that is presumably lost in certain areas.

4.2 History and cultural issues

4.2.1 Multicultural people

The indigenous people of the Solomon Islands are largely Melanesians who inhabit the main islands and smaller number of Polynesians who inhabit the outlying islands. Whilst there are common cultural, social and political norms among the Melanesian and Polynesian tribes, there are also differences. The most obvious and distinguishing one is the spoken language. There are over 80 indigenous languages and dialects spoken in the Solomon Islands. In addition there are patrilineal and matrilineal societies. The traditional

governance systems are of both a chiefly system of inherited leadership and acquired competitive leadership system, sometimes called the “big man” system.

In addition to the indigenous people there are the more recent immigrants mostly Micronesians who were resettled in the 1950's by the British from their former colony of Gilbert and Ellice Islands (now two independent countries of Kiribati and Tuvalu). There are also Asians, mostly Chinese, who arrived during colonial times as well as in the more recent times. There are also few Caucasians and people from other Pacific Islands who have settled and become citizens of Solomon Islands.

Before the declaration of a British Protectorate, there were many *nations* of tribes and clans in the islands now comprising Solomon Islands. In 1893 the British declared a Protectorate over the islands and its people, delineated the physical boundary of its protectorate and called it the British Solomon Islands protectorate. So began the process of building a nation out of the numerous *nations* of tribes and clans.

With the declaration and establishment of the British Solomon Islands Protectorate, the British introduced their political, legal and justice systems in their governance of the Protectorate. As the worldwide process of decolonisation accelerated, the British handed over these systems of governance to the people of Solomon Islands which culminated in an independent nation in 1978, 85 years after the declaration of a British Protectorate over the islands and the people.

The people of Solomon Islands adopted the British parliamentary democracy and legal and justice systems and conducted the affairs of the new nation accordingly. The new nation pursued economic and social development policies, strategies and programmes to improve the economic and social well-being of its people. The country, that came to call itself the *Happy Isles*, made considerable progress in improving the economic and social well-being of its people during the remaining two decades of the 20th century. However, towards the end of the century, an ethnic tension that became an ethnic conflict threatened the democracy and human well-being in the country.

4.2.2 Solomon Islands culture

The Solomon Islands culture is not homogenous. There are differences in terms of their structure, beliefs and practices, kinship systems and in the organization of their socio-economic and political institutions. There are, however, some features that seem to be common to all Solomon Islands societies. These provide a general framework for their way of life. This sub-section discusses some general features of Solomon Islands in an attempt to determine whether these features have provided a base for sustainable human development or otherwise.

4.2.3 Marriage

Typically, every society prescribes not only whom one should marry, but as well as how many people one may marry. In the same vein, all societies recognize, and for the most observe, incest and exogamy prohibition. There is a general feeling that marriage is not proper between people who belong to one lineage and closely related by blood. Monogamy therefore was dominant in the country except in few places and cases where polygamy (multiple wives) may exist. In Solomon Islands however, personal attraction is not an important factor for marriage.

Traditionally, the groom's father and lineage men arranged all marriages in Solomon Islands. Young men and women are never entirely free to select their own marriage partner. In most cases, a woman's marriageability depends entirely on her assessed abilities as food producer and reputation. These factors are important because they provide the base for unity and sustain the livelihood of a given family. On the other hand beauty and economic wealth are rarely considered. In all marriages payment of bride wealth is seen as a normal thing. Basically, bride wealth is charged for both economic and cultural reasons. Economically, it represents, to a larger extent, recognition of a woman's economic worth and is a form of compensation for the loss of an economic unit. Culturally, bride wealth symbolizes 'true' marriage and the 'respect' for the couples from both sides and generally in the public. It permits sexual activity for procreation and love among the married couple. Once married, a woman's worth is evaluated by her capacities to both produce and reproduce. In other words, *women are expected to continue to work industriously in the [economic] production and to bear and [raise] children to maintain the family*

lineage.¹³ Culturally, high premium is placed on women's hard work. Women are valued for their industriousness and judged on their ability to make and maintain food gardens as well as household production. Marriage ensured that the males gained access to the substantial products of female labour and thereby reduced their workload.¹⁴ Those (women) who are lazy are strongly criticized and derided. As a result, the work burden of Solomon Islands women is heavy, and their workday long and this fact is well acknowledged by numerous observers. However, this does not necessarily mean that men are lazy and not working alongside women in gardening and other activities. For instance, in Malaita and especially in Kwaio and South Malaita men plant and maintain sacred taro gardens. Men do take part in clearing the forest, cultivating the land, burning and building wooden fence around the garden.

Marriage also ensures that both parties share with each other the food they find. It creates a new socio-economic and political relationship between families, lineage, clan and tribal groups. Hence, it becomes an exchange of personnel and resources that create alliances based on reciprocal rights and privileges. Not only there are initial exchange of people and gifts, but also there are expectations of future transactions among members of the respective group. Such expectations entail the basis to reciprocate when the need arise in the future. This forms the base for unity, friendship, peace and harmony between the respective groups and the general society as a whole. Hence, it could be seen as a pre-requisite for sustainable human development in the Solomon Islands context.

The marrying age varies so considerably through Solomon Islands. In most cases the marriage age for men is twenty-seven while women, twenty-four. The underlying factor here is that men and women need to be matured and ready to shoulder family responsibilities such as child rearing, household production and other cultural expectations. This, however, does not necessarily mean that mutual socio-economic assistance is not forthcoming from one's own kinsmen and women. The primary responsibility, nevertheless, rests entirely on the family. In short, marriage should not be taken for granted. Rather, it is a

sacred thing that requires maturity to achieve an everlasting socio-economic union.

4.2.4 Family and extended family

Marriage and family represents both side of the same coin. The family is a social unit, consisting minimally of a married couple and the children that couple may have. Members of a family usually share a common residence and acknowledge certain reciprocal rights and expectations, both socially and economically. Generally, a person belongs to at least one family the one she or he is born into. However, the way in which each society arranged the family structure is different from one society to another.

Traditionally, the most typical family arrangement practice in Solomon Islands was based on extended family. This consists of two or more monogamous and polygynous families linked by a blood tie. In most cases, a married couple and one or more of their married children live in the same house. However, an extended family is sometimes composed of families linked through a sibling tie; this variant is called *joint* family. For example, such a family may consists of two married brothers, their wives and children. Both forms of extended families exist in Solomon Islands. The extended family therefore is usually large; containing two or more families and may include up to three generations. The extended family could also be seen as *insurance* that supports economic progress among members of a given family or lineage. The family is the principal production unit that forms the base for stability in a given society. Each family has the primary role to ensure the survival and sustainability of their members are maintained and to some extent the members of their lineage or extended family. It should be noted that the basis for self-reliant and self-sufficiency in the traditional context is hard work' and working for life. A male (husband) heads each family. He oversees the daily planning, problem solving and organization of labour to achieve their economic and socio-political goals. Members of the family are expected to support their head. However the incidence of female headed families is increasing in most Pacific Island countries and in traditional system they need to be part of an extended family to participate in the *wantok* system of sharing or face the prospect, in most instances of poverty.

¹³ (Lateef 1990:25)

¹⁴ Howard (1986:262)

4.2.5 Clans

Traditionally, Solomon Islanders lived in small and scattered hamlets within their own or clan's land. They lived according to their lineage grouping within a given clan. In some parts of the country, people practice either patrilineal or matrilineal system. Hence, people inherit through either side. For example, in Malaita where people practice a patrilineal system, inheritance is usually handed down to the elder son through the father's line. The elder son is considered as the custodian of his lineage group. He does not own the land and other resources. The section on land ownership later in this section explains the difference between hereditary ownership and effective control which is always administered by the senior males.

The kinship system forms the basis for extended family or lineage and clan. Here, two forms of inter-related relationships exist - one is through blood while the other through marriage. However, there is a great deal of variations in the way people categorize their kinsmen and women. The organization of kinship system involves the question of descent; a socially recognized links between a person and his or her ancestors. It is largely through descent grouping that one knows exactly their genealogies and links to others. This is done through tracing descent either by male or female lines. Tracing descent through male lines is referred to as patrilineal descent. Under this system, children in each generation trace from their social father and only those who are related through male lines are considered part of the kin group. Likewise, descent traced through female line is referred to as matrilineal descent. Again, children traced from their social mother, and only those who are related through female line are considered part of the same kin group. Both systems exist in Solomon Islands. Hence, people recognized both relationships. It is seen as a social security or safety net mechanism. Here, the complex of web kinship expectations that embedded in the reciprocal system has become the basis of their life and socio-economic organizations.

The formation of the kinship is also in line its political structure. This consists of the clan and lineage. A clan is a group of people who believe they to have descended from a common ancestor, despite the exact links back to that ancestor is not known. Members of the clan are scattered within their own land and corporate collectively on

matters such as feasting, marriage ceremony, building chief's house, warfare, and settlement of disputes that concern the clan.

A lineage on other hand, is a group of kin who descended from a common ancestor through known links. Like the clan, lineage is also a corporate unit that serves as a primary role in the inheritance of economic wealth. In many parts of the Solomon Islands, lineage members hold land jointly. It is often the responsibility of lineage members who are better off to ensure that others who are unfortunate and physically handicapped are cared for and assisted economically. In other words, kinsmen and women must ensure that their members are secured, cared for, protected and assisted whenever in trouble.

It is this link either through blood or marriage that provides the base for social, economic and political support from each other. However, the day-to-day economic production rests entirely on individual families. It should also be noted that members of the extended family or given family are expected to contribute in one way or the other towards their household production. Therefore, the issue is not working together for a common goal and mutual support. Rather, it is over dependency on a few for their own ends. It is the abuse and misunderstanding of the system therefore, that is likely to affect sustainable human development in Solomon Islands in the future.

4.2.6 Religious system and values

Religion and magic have always played a significant role in Solomon Islands society. Both constitute an essential part in *kastom*. It is believed that supernatural power or magic is usually derived from one's ancestral spirits. Traditionally, one has to perform sacrifices and offerings to acquire supernatural power and magic. Acquiring magic is not taking for granted, let alone an easy activity. Here, magician by the conditions of the magic itself must frequently observe certain norms as appropriate. These conditions may include avoiding sleeping with women, be clothed in a certain way, refrained from eating certain foods with women, or to reside separately. Religion therefore, is not only a form of a belief system but as well as a form of social control.

Solomon Islanders use magic for different things and purposes. The most common ones and their

purposes, however, are summarized below (Table 4.3). It should also be noted that the mechanisms to acquire these magic and its applications are varied throughout Solomon Islands.

Table 4.3 Traditional magic and its usage

Type of magic	Purpose
Productive	<i>magic for hunting and fishing</i> <i>magic for fertility, planting and harvest in agriculture</i> <i>magic for rain making, trading profit and canoe sailing</i> <i>magic to attract women</i>
Protective	<i>magic for healing sickness</i> <i>magic for security and guidance</i> <i>magic to avert misfortune</i>
Destructive	<i>magic to bring storms and rains</i> <i>magic to destroy properties</i> <i>magic to produce sickness and bring death</i> <i>magic to bring bad luck</i>

Source: Firth, 1958

What becomes so obvious is that the beliefs in magic and the practice of it cannot be simply put down to credulity. Rather, it must be explained in terms of the acceptance of certain assumptions about the nature of things and logical argument from them. The strength of supernatural power and magic lies in 'faith' and the beliefs that these powers are true. This implies that magical practice is not performed simply for their own sake; each case has a practical aim, which underlines rationality. In addition, the ritual process must be done systematically and strictly follow the necessary steps. Magic, then, can have a useful organization power. Moreover, magic tends to enhance the confidence of those who employ it. In short, the traditional religion system can be useful if properly utilized to enhance productivity to achieve nation building.

4.2.7 Land ownership & tenure system

In the Solomon Islands, land is seen as not only a source of food, but as well as constituting some significant elements of historical, political and spiritual aspects of society. For example, land holds the *tambu* (sacred) sites, and monuments that represented the history of their clans, lineage and society in general. It is because of these historical ties that land becomes an important link between the living and ancestors. Politically, land is important in the sense that it binds people together as a landowning group. In the same way, land is a source of political and economic power, the more land a tribe, clan or a lineage owns, the more politically and economically prestigious it

is. The spiritual significant of land is that it becomes the *most valuable heritage of the whole (tribe, clan or lineage) and could not be lightly parted with*. In other words, land is the *soul* and the *heart* for Solomon Islanders.

Traditionally, land is owned by a group of people who are descendants from a known ancestor(s), which is known as *lineage* and not by institutions such as the government, churches or councils. In some parts of the country a tribe or clan owns land. Here, land is held under the customary land tenure system entitles all members of the land owning group some access to land cultivation and their forest. There was no individual ownership to land. The right to use land is determined by the genealogical links to those that owns the land. Even in patrilineal societies, women still retain and pass on secondary rights to work on their own descendent group's land. In either system, (patrilineal or matrilineal) children may use land, which belong to both their mother's or father's line, but does not constitute ownership. It should be noted that in matrilineal societies such as Guadalcanal, land is transferred through female line (senior female) within her lineage. Here, *Salini* (personal interview) observed that in matrilineal societies, discussions over who should use land and for what purpose is entirely done by senior men within their lineage group. *Nanau* and *Kasiano* (informal discussion) also share this view where both stated that women do not hold political and economic power in matrilineal societies. This is evidenced as all land transactions in the past and even today is absolutely done by senior men in their respective lineage or clans. This explicitly indicates that, matrilineal system only facilitates transfer of land ownership through the senior female line. This is in contrast to patrilineal societies such as in Malaita, where economic and political power rests with senior males.

Disputes over the ownership of land were believed to be less prevalent in the past. This may have been due to the smaller population and the fact that land boundaries were better defined. Economically, almost everyone was seen as equal. Therefore, the tendency for people to diverge from the norms of local traditions was minimal. However; it has also been noted that in the past most disputes that needed resolution were based on land use and ownership. Land was traditionally used primarily for gardening and housing rather than for economic exploitation and benefits. Access to forestland (building materials,

wild plants and animals, etc) fetching water and sea resources was free to everyone within a tribal group. In other words, there was little restrictions extant in the traditional societies over such resources (forestland, sea and water).

The customary land tenure system ensured that everyone had a right to land. Such a right was determined through the genealogical links to those who control the land. However, those outside of this link and who wish to use other people's land must first seek permission from the senior male (who looks after his lineage land). This means that land use and access was controlled. With the arrival of European values where land could be traded and exploitation of resources was made with little concern for the impact on native populations, the traditional values came under stress. This was further exacerbated by the forced and voluntary migration of populations with different traditional values. This placed further stress on the traditional system which created distortions that have been tendered as the reasons for many of the ethnic tensions experienced recently in Melanesian Pacific countries.

Other aspects of the traditional systems need to be investigated in relation to social security and micro schemes. Widely held views in the Solomon Islands suggest that micro schemes, including cooperatives are not viable and attempts to introduce them have all met with failure. This may be due to the expectation in villages to share wealth which creates a particular problem if only a small group of people are involved in a micro development scheme as any savings generated by the scheme may well be diverted to other members of the village in accordance with local customs. This may serve to de-motivate the members of the scheme especially if worthwhile benefits are not accrued by members. These causes are all speculative at this stage and a feasibility study on local traditions in each country may identify these key barriers to the success of micro schemes.

4.3 An overview of the tensions in Solomon Islands (1998 – 2003)¹⁵

Since independence in July 1978, the Solomon Islands parliamentary democracy was weakened by:

- Traditional loyalties of politicians to their home islands,
- Unresolved social and legal differences,
- Conflict between customary and other forms of land use and ownership,
- Corruption, and
- Ineffective public service.

There were many tensions in the society but one of the most dominant tensions was the one which escalated between some people in Guadalcanal (Guales) and their perception of settlers from Malaita on their traditional lands particularly around Honiara. Some Malaitans had settled in Guadalcanal for more than two generations and had acquired land legally from the local population. Economic resentment grew among the Guales as the government, dominated by Malaitans, was seen to fail repeatedly to respond sufficiently to the demands of the Guales.

Conditions deteriorated in 1999 when the Premier of Guadalcanal, Ezekiel Alebua, asked the central government to pay his province for hosting the capital, Honiara, and suggested that people from outside the province should not be allowed to own land there. The *Guales* people had long complained that internal migrants had taken their jobs and land. Violence occurred in June 1999 when militants from the *Guales* dominated *Isatabu Freedom Movement* (IFM) started to terrorize and physically force Malaitans from their lands, initially in the countryside and then later in Honiara. This fighting escalated when the Malaita Eagle Force (MEF), an armed group was formed to protect Malaitan people and to assert their own group demands. Further escalation occurred when the Malaitan militants, dominant in the security forces, successfully raided security force armouries and militarised the conflict by the spread of military calibre small arms, known throughout the conflict as *high powered weapons*. This was further exacerbated later in the conflict when the Maraua separatists, Guadalcanal Liberation Front (GLF), which has its stronghold on the Weathercoast of Guadalcanal entered the conflict by splitting from the MEF to seek their own separatist solutions.

The government declared a state of emergency and in July 1999 the first stage of the conflict ended with the signing of the Honiara peace accord which required disarmament and a review to ensure even development throughout the island. However the peace process was short-lived and violence continued in 2000 when 200

¹⁵ Adapted from UNDP Peace and Conflict Development Analysis, 2004

people were killed and 30,000 displaced. In June 2000 an MEF coup took over Honiara, forced the Prime Minister Ulufa'alu to resign and the opposition leader Manassah Sogvare was elected in an emergency parliamentary vote on 30 June 2000. The new government, under duress, agreed to pay compensation of \$1.6 million to Malaitans for damage to property and lost land.

On 14 October the Townsville Peace Agreement¹⁶ (TPA) was signed and this agreement provided for:

- A general amnesty,
- Weapons amnesty,
- Disarmament and demilitarisation,
- Restructuring the Royal Solomon Islands Police Force (RSIPF),
- Decommissioning of the Joint Operations Force,
- Compensation of individuals,
- Proposed development of areas affected by the violence,
- An indigenous peace monitoring council, and
- Assistance of an international peace monitoring team.

However the provisions of the TPA were never fully implemented, peace remained tenuous and the conflict continued with the breakdown of law and order in and around Honiara and other parts of the country. Engagement of additional police constables from the ranks of ex-militants failed to improve the situation. In December 2001 a new reform oriented government was elected and attempted to address the serious economic problems and the law and order issues. The International Peace Monitoring Team (IPMT) left in June 2002 and international assistance was provided to assist with development and economic recovery.

Box 4.2 *Impact of the ethnic tension 1999 – 2003*

Impact of the Ethnic Tension 1999 – 2003

Major factors included:

- Loss of lives and violations of human rights, fear and insecurity in the community.
- The displacement of over 30,000 people mainly from Guadalcanal to Malaita
- A severe downturn in smallholder market production (particularly copra) as buyers ceased to operate and inter island shipping services contracted. This deprived rural households of a principal source of cash and has forced many to survive at a subsistence level.
- The collapse of police authority and the growth of crime particularly in Honiara, Guadalcanal Weathercoast and parts of Malaita which in turn restricted travel and conduct of normal public and private sector activities.
- The illegal activities of special constables and in particular their demands for payments which led to the collapse of government functions and the breakdown in financial discipline as further unbudgeted payments were demanded by many categories and authorised whilst government revenues were dwindling with the downturn in economic activities and the abuse of waivers and collection procedures.

Economic impact

- Exports of palm oil products fell from SBD 97.9 million in 1998 to SI 65.1 million in 1999 & SBD 6.5 million in 2000.
- Fish export income went from SBD 195 million in 1999 to SBD 45 million in 2000. Fish export contribution to GDP fell by about 42 percent in 2000.
- The closure of the Gold Ridge mine with the loss of several hundred jobs, demand for services and export earnings in June 2000.
- The closure of Solomon Islands Plantations Limited (SIPL) and Russell Islands Plantation Estates Limited (RIPEL) with the loss of over 2,000 jobs; the loss of a market for copra for smallholders and the cessation of palm oil and palm kernel exports.
- The consequent "starving" of funds for public services including most importantly those for education and health as taxation revenues dropped and cash flow ceased exacerbated by suspension of external assistance.
- Agricultural output dropped by over 50 percent from beginning of 1999 to end of 2000.
- GDP in 2000 declined by 14 percent.
- Infrastructure damage estimated at mere than SBD 250 million or equivalent to 20 percent of GDP.
- Significant increase in overseas and internal debt as a result of loans to pay compensation. SINPF also owed significant arrears by government from loans and non payment of contributions.

The prevailing atmosphere of lawlessness, frequent outbreaks of violence, widespread extortion and the compromised nature of the RSIPF which maintained links with criminal gangs were significant barriers to recovery which was further undermined by extortion attempts on the government by criminal gangs. Following the assassinations of a former police commissioner, a national peace counsellor and threats against commercial banks, the government made a formal request for external assistance to end the violence.

¹⁶ It should be noted that the GLF never signed the TPA.

On 24 July 2003 Australian and Pacific Island Police and military forces arrived as part of the UN endorsed Regional Assistance Mission to Solomon Islands (RAMSI).

4.3.1 RAMSI (Regional Assistance Mission to Solomon Islands)¹⁷

The National Parliament of Solomon Islands approved legislation that authorized external assistance to restore law and order and assist in economic recovery following the downturn caused by the period of tension. Following the request for support, RAMSI commanded by Australia was deployed under the terms of the Pacific Islands Forum's Biketawa Declaration and the United Nations Charter. RAMSI with an initial deployment of 2300 personnel represented the largest policing operation in the region since World War II.

The mandate of RAMSI was to reinforce and uphold the legitimate institutions and authorities in the Solomon Islands, and ensure respect for the constitution and implementation of the laws. In terms of international law, RAMSI was not technically an intervention because the Solomon Islands government remained the sovereign authority. A special coordinator commands RAMSI and his role is to control and coordinate the components of the operations including police, defence and civilian and to engage with the Solomon Islands government. The strategy incorporates:

- A comprehensive approach to law and order including weapons, general crime, abuses of power and corruption;
- Government legal structures including prisons, judiciary, and legal officers; and
- Government finances including revenue and broader economic reform.

The priorities for 2004 included consolidation of work with the Royal Solomon Islands Police force, military withdrawal, and an expansion of development assistance. The priority development areas for RAMSI are economic reform, machinery of government and law and justice mechanisms.

4.4 Governance and policy development

4.4.1 The National Economic Recovery, Reform and Development Plan (NERRDP) 2003–2006

The plan has been prepared by the Solomon Islands Government (SIG) in the aftermath of the serious breakdown in law and order and national security – a period of ethnic tension and civil disruption which has impacted negatively on the economy and livelihoods of many Solomon Islanders; on normal governance and administration and on the delivery of basic social services – in particular on education and health throughout the country from 1999 through to 2003.

The purpose of the plan is to set out a strategic framework with clearly identified priority targets and actions which SIG and its development partners must actively work towards to achieve economic recovery and reform and the restoration of those basic social services as well as to re-establish and build the foundations for sustainable economic and social development.

4.4.2 Immediate objectives of NERRDP 2003-2006

The immediate objectives of the plan are to

- Improve the security environment in restoring law and order and fostering peace,
- Strengthen and improve governance institutions and good governance,
- Bring about macroeconomic stability and income growth,
- Restore basic social services in health and education, and
- Re-establish the foundations for sustained economic growth and human development.

4.4.3 Key strategic areas of NERRDP 2003-2006

In the context of its overall goal and its immediate objectives, NERRDP 2003-2006 focuses on five key strategic areas. These are:

- Normalising law and order and the security situation,
- Strengthening democracy, human rights and good governance,

¹⁷ Adapted from UNDP *Peace and Conflict Development Analysis*

- Restoring fiscal and financial stability and reforming the public sector,
- Revitalising the productive sector and rebuilding supporting infrastructure, and
- Restoring basic social services and fostering social development.

Monitoring and assessing the progress of implementing the plan to achieve these expected outcomes will be done by using measurable indicators including those for the Millennium Development Goals. This will assist in determining the extent to which real progress is made in improving the quality of life and living standards of people in Solomon Islands.

4.4.4 Governance

During consultations for the formulation of NERRDP, respondents frequently expressed concern over corruption, misuse of public funds, discretionary tax and duty exemptions, non-adherence to existing rules and procedures, and political appointments to the civil service. Corruption is widely acknowledged to be pervasive and ingrained. Its removal will require top-level political commitment and a long-term process of strengthening key governance institutions, reforming the public service, and educating the public. Freedom of the media is guaranteed by the Solomon Islands constitution, and has generally been exercised. However, a recent review of the Ombudsman's Office, the Leadership Code Commission, and the Auditor General's Office concluded that those offices were under resourced and ineffective. Governance institutions will receive increased funding in 2004 to improve accountability throughout the government, but institutional strengthening is also required.

A new constitution and federal system of government is being considered for introduction in 2004. The desire for decentralization appears to be a response to the perceptions that the national government has failed in effectively fulfilling its core functions, and that resources have not been equitably shared by the capital and the rest of the country. However, the benefits, costs, and implementation challenges of decentralization need to be assessed carefully. The country faces major challenges in restoring public administration due to limited managerial capacity and substantial differences in the capacity of the nine provinces to take on new state government functions of policy

development, planning, financial and operational management, regulation, and supervision under a federal system. The creation of state governments may simply increase the financial burden of government without improving in public service delivery and accountability.

4.4.5 Public sector reform and capacity building.

The public sector has not delivered adequate services because both national and sub-national levels have failed to effectively fulfil the core government functions of revenue administration, public expenditure management, public administration, and regulation of SOE's. Improving the performance of central and provincial administrations and public utilities will be fundamental to higher living standards, especially in rural areas. A key issue for the durable rebuilding of public finances is the size of the public service, which claims 52 per cent of estimated domestic revenue in 2004. Considerable reform and capacity building are needed for national and provincial governments to fulfil their functions effectively. These efforts should not be confined to human resource development, but should include development of systems for effective planning and management, including action plans, coordination mechanisms, and rational links to the recurrent and development budgets. To restore administrative capacity, public service reform must be planned carefully, and not be a simple downsizing exercise. While in some cases it might be appropriate to create new functions, in other areas outsourcing may be the best solution. Funding is needed to implement a redundancy and retirement program, combined with more comprehensive reforms.

4.4.6 Economic reforms.

NERRDP acknowledges that the private sector environment must be enhanced by improving the institutional infrastructure and revising outdated and incomplete legal and regulatory frameworks. To ensure sustainable peace and ethnic harmony, it will also be crucial to address the inequitable distribution of resources, create opportunities for income generation, and provide basic infrastructure and services. Adequate solutions to the fundamental issue of customary land ownership should be driven by the government, but may require external resources in support. An Economic Reform Unit (ERU) will be established

in the Ministry of Finance, National Reform, and Planning (MFNRP) to oversee, coordinate, and implement private sector regulatory reforms; infrastructure service provision policy and regulation; SOE reform; financial sector reforms; provincial economic development; statistical collection service reforms; and specific sectoral policy reforms to promote new investments in potential growth areas.

4.4.7 State-owned enterprises.

Solomon Islands has 17 SOEs covering statutory authorities; air transport services; telecommunications; resource-based enterprises in forestry, fishing, and agricultural production; and service providers in ship repair, printing, tourism promotion, and export marketing. While these SOEs have provided much-needed services, they have also created numerous problems for the economy, because of:

- Crowding out of the private sector,
- Higher cost of inputs to private enterprises,
- Inconsistent and unreliable service delivery and quality,
- Ineffective politically appointed boards, and
- Inappropriate mixing of regulatory and commercial functions causing mismanagement and poor governance.

Reform of the SOEs will need to consider various options for improving performance, including better management, corporatization, and privatization within an appropriate regulatory framework. The privatization process envisaged under the 1998 Public Sector Reform needs to be revived; however, care needs to be taken that privatization does not lead to a simple replacement of public sector monopolies with unregulated private sector monopolies.

4.5 Economic overview

The ethnic tension from 1999 – 2003 had a devastating effect on the economy and the downward spiral was finally arrested in 2003 and the production of major commodities has increased substantially in late 2003 when compared to the same period of the previous year. The adverse effects of the ethnic unrest can be appreciated from the fact that GDP declined by 13.3per cent, 10.1per cent and 4.0per cent for 2000, 2001 and 2002, respectively, and that growth is not expected until 2004. Government faces a range of problems including high foreign debt, low foreign exchange reserves, greatly

reduced tax revenues, and accumulating public debt.

4.5.1 Recent performance and outlook¹⁸

After 4 years of contraction, real GDP increased (from a very low base) by an estimated 3.8per cent in 2003 and 5.8per cent in 2004, and is forecast to grow by 4-5per cent in 2005 in expectation of continued law and order, further progress in public financial management, and a gradual return of investor confidence. Forestry (which has reached an unsustainable level), fisheries, cocoa and copra production are all growing rapidly and will be the main drivers of growth. Gold mining and oil palm operations remain suspended, and are not expected to resume exports in the near term, given the uncertainty over the long-term policy environment in these sectors. Growth prospects would improve considerably if constraints were eased in the areas of secure land tenure, employers' rights to employ labour of their choice, and inter-island transport.

Several years of fiscal mismanagement were turned around with the arrival in August 2003 of the RAMSI budget stabilization team, which imposed tight expenditure control, initiated a payroll audit, increased revenue growth, improved tax compliance, and formulated a medium-term debt management strategy. The 2004 budget now provides for a balanced cash position. Budget support from Australia and New Zealand represents a major fiscal stimulus at almost one-quarter of total revenue, and permits total recurrent expenditure to rise by 41.5 per cent from the 2003 level. The 2004 development budget is huge in the context of recent fiscal history, almost matching the planned level of recurrent expenditure (SBD 480 million). Public expenditure has been reallocated to the key service areas of health and education, financial administration, provincial affairs, and law and justice. Care will be needed to ensure that external supplements support a transition to fiscal sustainability and do not create dependence on aid agencies for recurrent and development funding.

The current and capital accounts have been in surplus as a result of a rise in official inflows, so foreign reserves (exclusive of external debt arrears) continue to improve. Inflation fell from

¹⁸ ADB - Country Strategy and Program Update 2005-2006.

15.4 per cent in 2002 to 10 per cent in 2003, and is projected to be in the 4-6 per cent range in 2004-2005. Imports will increase as economic growth accelerates, but export growth and increased official transfers are expected to more than offset them, possibly allowing some easing of foreign exchange rationing as foreign reserves are rebuilt. The Solomon Islands dollar was stable against the United States dollar in 2003, but depreciated 18.4 per cent against the Australian dollar, the currency of the country supplying about 56 per cent of Solomon Islands' imports.

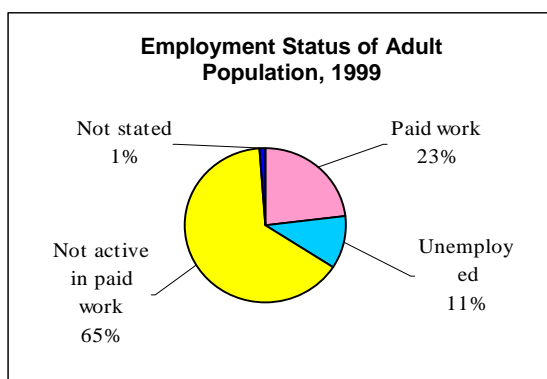
Reducing the public debt burden will be a long and arduous task. The Government's total debt is around SBD 2.2 billion or about 139 per cent of GDP. An external debt of SBD 1.211 billion accounts for 72 per cent of the formal debt, with 30 per cent owed to ADB. However, the allocation of 22 per cent of total revenue to debt servicing is insufficient to fully service all debts and the budget makes no allocation for the payment of past arrears. A comprehensive government financial restructuring initiative that is under way involves negotiations over debt forgiveness, debt rescheduling, and lower interest rates. Given the un-sustainability of the debt situation, the government has decided not to consider additional external loans in the short to medium term.

4.6 Labour market situation

4.6.1 Informal employment and self-employment

One of the driving reasons for revitalising the economy is to **improve household incomes**. Part of that strategy will be to increase the number of paid jobs in the private sector. This section examines the patterns of employment.

Figure 4.5 Employment status



Source: 1999 Census report

In Solomon Islands the large majority of the adult population is engaged in informal and self-employment. These are the rural people who are subsistence farmers, those engaged in smallholder production of export commodities and fishing for local markets and also those in urban areas and the informal urban sector. These people are not in paid employment.

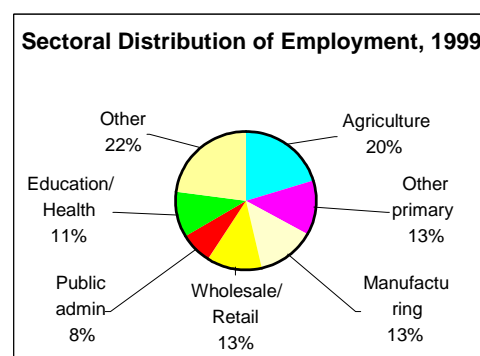
The 1999 census showed that 65 percent of adult population was not in paid employment, including subsistence farmers and those doing household duties in urban areas (Figure 4.5). This would include those displaced by the ethnic conflict from paid work in Guadalcanal and Honiara and returned to their villages and were not seeking paid work. It is reasonable to expect that a proportion of people in rural areas, although not actually seeking paid work, will take the opportunity to have paid employment if the opportunities arise.

4.6.2 Formal employment and unemployment

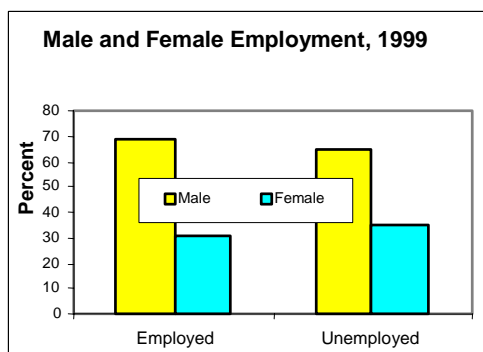
The Government Statistics Office once carried out annual surveys of formal employment, however these have not been undertaken for at least five years. The latest report is for 1998. Due to the ethnic conflict and other problems, no surveys and reports were produced since 1998. However, data from the 1999 census shows that 23 percent of the adult population was in paid employment (Figure 4.5).

Agriculture, forestry and fishing provide the most employment, followed by manufacturing, wholesale/retail and public administration. The private sector provided most employment, 70 percent in 1998. In the public sector, the central government is the largest employer, 24 percent of total formal employment in 1998.

Figure 4.6 Employment by sector



Source: 1999 Census Report

Figure 4.7 Employment by sex

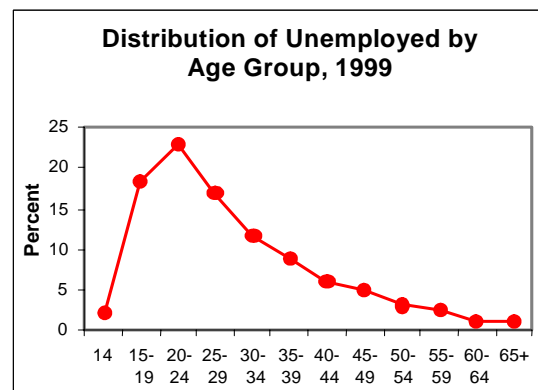
Of those in formal employment in 1999, more than two-thirds were male (Figure 4.7). Data from the annual employment surveys show that female employment increased by 6.5 percent between 1994 and 1998 and 8.4 percent for males in the same period. Total formal employment rose by 8 percent in the period 1994-1998, an average of two percent per year. In 1999 the government carried out a redundancy exercise as part of the policy and structural reform programme. Since 1999 the ethnic conflict and subsequent law and order problems took a major toll on formal employment; however national provident fund contributions suggest that the situation may have almost returned to pre 1999 figures.

Information on unemployment is available only from the 1999 census report. Unemployment is defined as those who are seeking paid work. According to the 1999 census, 11 percent of the adult population was unemployed (Figure 4.5). Of those seeking paid work in 1999, 65 percent were male and 35 percent female (Figure 4.7).

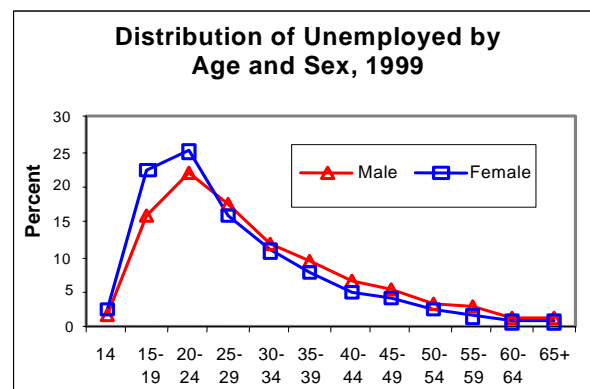
There is a high level of youth unemployment. Among those in age group 14-29 years, 61 percent were unemployed i.e. seeking paid work. Unemployment was highest among the 20-24 age group, followed by those in age group 15-19 years (Figure 4.8).

Male unemployment was higher than female in the age groups of 25-29 years and older (Figure 8). In the younger age groups, 14-24 years, there is a higher proportion of female unemployment. These age groups account for half of female unemployment, with 25 percent in 20-24 age group. An increasing number of females are looking for paid work.

The census data on the activities shows that the majority of adults are still active in domestic and unpaid activities, there had been some expansion in paid work where overall paid work increased more rapidly than the population. Because of the youthful age structure the number of new jobs created was less than the potential new entrants into the labour force.

Figure 4.8 Employment by age

Source 1999 Census report

Figure 4.9 Employment by age & sex

With a young and growing population and the high graduation rate from the school system, an increasing number of young people are coming into the labour market each year. Many of these young people will enter the ranks of the unemployed or engage in informal employment. Many of the unemployed youth will be in the urban areas, particularly Honiara. Formal employment remained low in 2002 with little prospects of major improvement in the immediate term. Particular attention needs to focus on informal and self-employment opportunities particularly household cash crop production and formal employment opportunities.

4.6.3 Women in the labour force

Women's participation in wage employment is far lower than for men. However, female participation has been rising steadily faster than for men from 13.5 per cent in 1981 to 23 per cent in 1995. Despite the increase female participation in the labour market is still limited, and the employment is often insecure. Women workers are concentrated in conventional *female* job categories such as nursing, teaching, secretarial and domestic work. Women comprise 43 percent of the Public Service, 48 percent of wage employment in hotels and restaurants, 40 percent of employment in food, beverage and tobacco manufacturing and 40 percent of financial and business services. The major change in women's employment has been in the area of food processing which reflects the participation of women working in the Solomon Taiyo Fish cannery, at Noro, Western Province, where over 600 women are employed. Women's participation in this sector has risen from 6.5 per cent to 40 per cent in 1995 and now accounts for 11 percent of the total female wage employment (PACFAW, 2004: v).

Women's participation and visibility in the communities and at national government greatly lags behind that of males despite progressive inclusion of women analysis in project documents supported by sex disintegrated data, budgetary allocation and consultation on matters of national interest. Aided by international and regional mandates and priorities, national counterparts have advocated for women's rights and equitable allocation of goods and services as a matter of development priority. However, this has not always translated well in employment, working conditions, benefits, entitlements and social security participation. Women outlive men yet there is minimal benefit in place for their sustenance. With development and continued interface with the cash economy, poverty and hardship is seeing more people relying on the traditional *wantok* system (traditional safety net), to meet individual and collective needs. This is realized through the barter, reciprocal and sharing systems based on relations. As a result of this women are further marginalised as they are often accommodated last, after the men folk, elderly people and children.

Not much information exists in terms of the gender based insurance and workers entitlement for those in these industries, but one could accept

that this is minimal. The existence of credit unions and schemes in the urban and rural areas are based on group participation. However, these government initiatives continue to fail. Observers note that the power dynamics between gender and *wantok* obligations could attribute to this failure and their roles need to be considered when evaluating such schemes or introducing similar schemes.

4.7 Disadvantaged groups in Solomon Islands

The assessment of disadvantage groups is a subjective view of the relative deprivation of these groups within Solomon Islands society and it is also closely linked to vulnerability to poverty caused by loss of income. The nature of the environment in Solomon Islands in a series of dispersed islands with their inherent risks from drought, inundation, cyclones which contribute to a high co-variate (group) risk for most communities. Disadvantaged groups include:

- **Formal economy** - the weakness in compliance as regards formal sector workers increases vulnerability against poverty in the event of accident, death, illness or unemployment. If the group of self employed workers are also included then many workers in formal employment are only covered by only the basic social security elements provided by the provident fund scheme.
- **Workers in the informal economy** – social security provisions are not available to these workers yet they represent most of workers and their families in Solomon Islands and they are highly vulnerable to adverse life events that result in temporary or permanent loss of income which can cause them to quickly descend into poverty. Whilst there is limited capacity for workers in the rural informal economy to practice some degree of subsistence farming to compensate for some of the loss of income, this is becoming increasingly less available to workers in the urban informal economy, particularly in Honiara.
- **People living on outer islands.** They are disadvantaged through their 'general lack of everything,' namely their isolation and lack of resources, and because, despite efforts to

promote outer island development, most resources are invested in Honiara.

- **Youth**, who are not well equipped by the education system for the opportunities available to them. They take the brunt of a lot of the social changes. The national youth policy identifies some critical issues for young people in the Solomon Islands that included:
 - **Unemployment.** The new entrants to the labour force is not known but few of them find productive work, let alone any cash income. The 1999 census found that the highest incidence of unpaid work was in the age group 15 – 19 at 69 per cent. Unemployment is the most pressing problem facing young people in Solomon Islands today and it in 1999 it was estimated that 11 per cent of the active labour market are seeking work.¹⁹ Although more young people are staying at school to senior secondary level, there are few jobs outside of the government. Most cash jobs are in Honiara. The large semi-subsistence village economy disguises a high level of unemployment in the country. It is estimated that for the period 1986 – 1999 an average of 1,540 new jobs were created in the formal economy each year.²⁰ However one of the effects of the ethnic crisis was reduction in employment through closure of some major industries. The current situation is not known but is unlikely to be better than the 13 year average mentioned above.
 - **Changing Solomon Islands culture.** Young people are particularly affected by the fast change in cultural practices and the narrowing range of economic opportunities in Solomon Islands. Although cultural identity and pride in being a Solomon Islander is generally strong, young people particularly are drawn by the global ‘western’ culture that reaches them through videos and music. Youth organizations promote local culture through dance and song competitions and community work. The change in cultural values is quite

insidious, from the greater individualism and materialism promoted by the schools and economy, to the greater sexual freedom that international media espouse. The emergence of new ideas, especially about personal liberty and sexuality, creates a lot of tension for young people and is contributing to a breakdown of traditional households.

- **Education** for Solomon Island youth, whilst very limited, is improving where enrolment increased from 35 per cent in 1986 to 56 per cent in 1999 with the gap between boys and girls narrowing. However over 40 per cent are pushed out at the completion of standard 6 and in 1999 upper secondary students represented 349 out of a total cohort of 8,400 which represents about 4 per cent advancement rate to Form 6 level compared to around 10 – 20 percent in other Pacific countries. In 2000 there were about 2000 places in the SI College of Advance Education and 496 students pursuing overseas studies.
- **Large families** that cannot meet their own needs, either through high fertility or their need to absorb relatives from outer islands. Poor households often suffer poor nutrition, poor housing and sanitation, higher mortality and ill-health and their children may attend school less.
- **Disabled people.** Education facilities for disabled children are poor and under-resourced. There is no vocational assistance or other facilities for disabled adults. Adult disability is becoming more common, particularly as diabetes and other non-communicable diseases have become prevalent. The main insurance for a household with a disabled head is family support, which often is inadequate in the long-term.
- **Households that have no land.** Many households in Honiara are squatters and lack proper access to water or sanitation. There is limited availability of land for non-Guadalcanalese. Traditional owners control the use of their land and resources. Dense, congested, and haphazard squatter housing contributes to health and social problems and inefficient land use.

¹⁹ NERRDEP 2003 - 2006.

²⁰ Authors estimate based on the Urban Formal Employment figures provided by Department of Statistics.

Landlessness may be becoming an issue throughout Solomon Islands. Despite legislation to curb land sales, it is widespread. Landlessness defines poverty in local terms. Traditionally, landless people could often cut copra on the chief's land or get access to land or sea resources through social traditions such as adopting of an old or sick person with land or offering a gift. Lack of access to land may now be an important marker of disadvantage. A main source of crime now is land disputes among relatives as people increasingly turn to land for a cash income.

- ***People without regular income and the poor*** – Aged, invalid, widowed, the unemployed and women make up a considerable proportion of the most disadvantaged and vulnerable people and traditional systems seem to care for these groups. However with the continued urban – rural migration (to Honiara), changing in traditional culture and capacity of the households and relatives to support these groups more formal means may be required to substitute for local support.
- ***People displaced as a result of ethnic tensions*** – As a result of the displacement of Malaitan's during the ethnic tension, many households were displaced and assets lost and despite the compensation demands there are many families that are still at risk and landless in Honiara.

4.8 Existing formal social security programs

4.8.1 Solomon Islands National Provident Fund - overview

The Solomon Islands National Provident fund was established for the benefit of all persons employed in the Solomon Islands. An employee is defined as a person who has attained the age of 14 years, is not in an exempt category and is employed under a contract of service, irrespective of the period for which he person is employed.

Employers are required to make contributions of 12.5 percent of salary for each employee and may recover part of the contribution up to 5 percent of salary from the employee.

Benefits are paid to members on attaining the age of 50 years, on death, physically or mentally incapacitated from further employment, permanent emigration or attaining the age of 40 years and permanently retired. In general the benefits paid to members are the sum of their accumulated contributions and the interest allocations that have been determined by the board. The balance in the contribution at any point in time represents the total liability to members in the event of a legitimate claim. In addition to the balance of the contribution account, members are entitled to a special death benefit of SBD 2,500 upon death.

4.8.2 Financial accounts

The accounts that represent the SINPF have been drawn up in accordance with the requirements of the applicable accounting standards in the Solomon Islands. The financial position of the Solomon Islands National Provident Fund (SINPF) improved marginally in 2002 compared with the deterioration during the previous year. The improvement was due to the reduction in loans outstanding with government (Figure 4.10) and increase in member contribution (Figure 4.11). The largest amount of loans outstanding is with the government, mostly restructured bonds. This amounted to 46 per cent of total loans outstanding in 2002 and represented 25 per cent of total assets of NPF. Most of the loans to the statutory authorities and the private sector, which includes staff loans, Western Province Housing Scheme and SINPF Housing Scheme, have not been profitable.

The government has not been servicing its debt with SINPF and its debt arrears are mounting. Apart from being unable to service its debt with SINPF, government has not been paying the required SINPF contribution for its workers. However, in 2002 the government made a payment of SBD 0.5 million of the outstanding contributions. At the end of 2002 total government arrears on members' contribution was over SBD 50.5 million, however by June 2003 the total debts owed by the government for loan repayments, contributions, surcharges, securities, and rentals was SBD 148.6 million, a substantial increase from the 2002 estimate of SBD 85.0 million. It should be noted that the financial accounts do not include the government debts because the government is expected to settle its debts in full in due course. Similarly some of the government statutory authorities and

corporations have also not been able to meet their debts and at June 2003 the outstanding arrears from these sources was SBD 27.6 million and increase over the 2002 estimate of SBD 22.5 million. As with government debt, no provisions have been made in the accounts for non-recovery of these amounts. Annexes 1–3 shows statements of contributions, assets, liabilities, income and expenditure.

The SINPF financial position deteriorated in 2000 and 2001 with the closure of major corporations and suspension of operations by some enterprises resulting in job redundancies. Not only did those members' contributions cease, but members also withdrew their funds. The members' contribution account fell in 2000 and tumbled in 2001 (Figure 4.11). Part of the reduction in the contribution account was caused by government not paying the required SINPF contributions for its workers. The policy of two-thirds security pledge of members' contribution on members borrowing with commercial banks also depleted members' funds when the commercial banks called upon the pledge. SINPF Board proposed changes to the criteria for withdrawal but these have yet to be approved by government.

Figure 4.10 SINPF loans

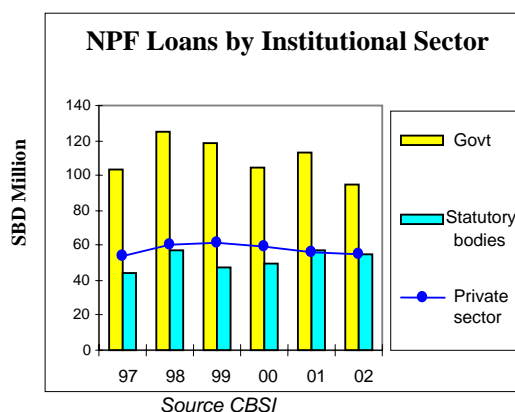
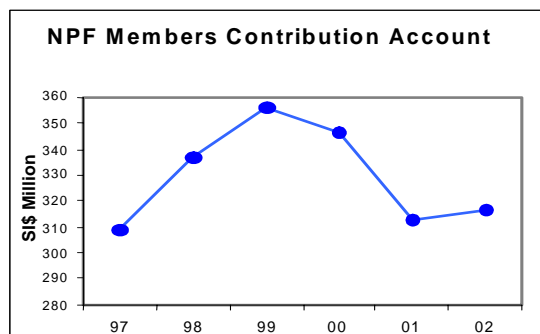


Figure 4.11 SINPF contribution account



The assets of SINPF are composed mainly of loans to the public and private sector, commercial real estate and also term deposits with the commercial banks. SINPF should look at having a more diversified portfolio of assets. The SINPF also needs to improve its accountability. It has not published for general distribution, its annual reports and annual accounts since 1996 except for individual copies provided to each member of the parliament.

4.8.3 Analysis of the current SINPF scheme²¹

The introduction of the Solomon Islands National Provident Fund (SINPF) in 1976 was a major step forward in developing a social security system in the country. The SINPF incorporated the former pension system for government civil servants.

The SINPF is governed by a tripartite Board of Directors, composed of two representatives each from the government, employers and workers. All the directors are appointed by the Minister of Finance. Recently the SINPF has changed the traditional practice whereby the Chairman of the Board is automatically the Permanent Secretary for Finance. Now the Board elects and appoints the Chairman amongst the directors.

Under the SINPF Act, the Minister of Finance is the supervising authority of SINPF. However, following the passage of the Financial Institution Act 1998, the SINPF now comes under the direct supervision of the Governor of the Central Bank of Solomon Islands (CBSI). With this new legislative arrangement, the SINPF is required to comply and conduct its business in accordance with the requirements of the Banking and Finance Act, in line with commercial banks. The CBSI has recently started to undertake the assessment of SINPF and under supervision requirements; the SINPF is required to adhere to certain financial standards as to asset qualities, capital adequacy, risk management and prudential conducts.

The following comments are provided as a summary of the current benefit provisions and performance of the SINPF.

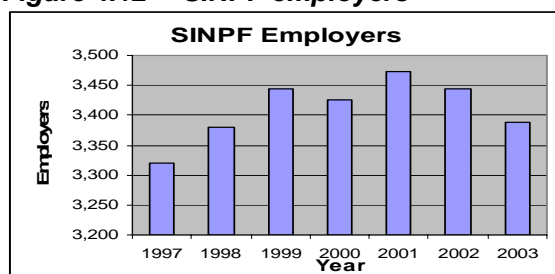
²¹ Adapted from ILO Short- and long-term policy options for the sustainable development of the Solomon Islands National Provident Fund (SINPF); An assessment report 23 October 2003

(i) Coverage

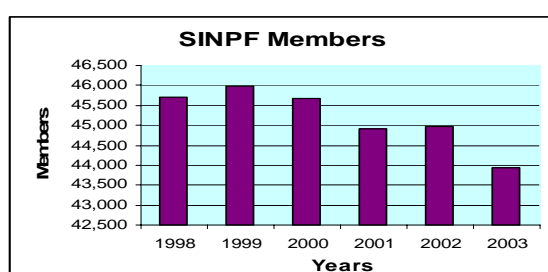
The coverage of the SINPF includes all employees in formal employment in the government service, public enterprises and the private sector. Membership is voluntary for self-employed and the unemployed. The number of the registered members has been stable for the years 1998 – 2000 at a level of 110,000 of which about 50 per cent were inactive members.²² The male members constitute 75 per cent of membership. However, the above figure does not appear to represent the actual situation, as it does not eliminate the accounts with zero balance as a result of recent mass withdrawals and job redundancies. The actual membership in 2000 was estimated to be much less than 100,000. By 2003 the total membership had reduced to less than 44,000 (see Figure 4.13)

(ii) Contributions and membership

The SINPF collects 12.5 per cent of workers' payroll as contributions. The employer contributes 7.5 per cent of the worker's wage to the fund while the worker contributes 5 per cent. SBD 5.00 is deducted from the individual account as premium for a special death benefit, which is set at SBD 2,500.

Figure 4.12 SINPF employers

Source SINPF

Figure 4.13 SINPF members

Source SINPF

²² In 2002, the SINPF registered 113,655 members, of which 57,903 were inactive.

The most recent membership data was obtained for the project and attempt to show the contributors by salary groupings. The details are shown in Table 4.4. Almost half of contributors earn less than SBD 10,000 per year with the modal range SBD 5,000 – 10,000. Unfortunately the data does not allow for estimation of an average salary of the proportion of women contributors although this has been previously determined to be about 25 per cent of the total. There is a discrepancy in the number of contributors shown on this table and the most recent active contributor numbers.

Table 4.4 SINPF contributors by salary groupings, 1997-2002

Salary Range (SBD)	Range in Membership base per month (SBD)	Number of Members	Salary range (Per cent)
Less than 5,000	< 20.83	3,060	16%
5,000 – 10,000	21.00 – 41.67	5,725	30%
10,001 – 15,000	42.00 – 62.50	4,080	21%
15,001 – 20,000	63.00 – 83.33	2,165	11%
20,001 – 25,000	84.00 – 104.16	1,404	7%
25,001 – 30,000	105.00 – 125.00	650	3%
30,001 – 35,000	126.00 – 145.83	500	3%
35,001 – 40,000	146.00 – 166.67	343	2%
40,001 – 45,000	167.50 – 187.50	274	1%
45,001 – 50,000	188.50 – 208.33	181	1%
> 50,000	> 209.00	686	4%
Total		19,068	0.99%

Source: SINPF March 2005

(iii) Benefits

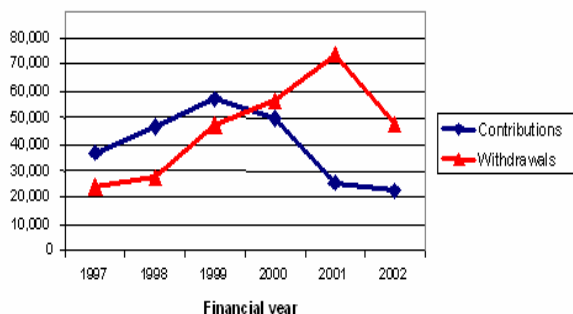
The provident fund benefit, which is the sum of the total contributions and accumulated interest earnings, may be withdrawn upon reaching the age of 50, or upon death, incapacity or permanent emigration. It may also be withdrawn partially or in full upon job redundancy or reaching the age of 40 and by producing documentary evidence of permanent job separation. Regarding the last condition, it should be noted that the SINPF has suspended age change due to pressures from members to alter their recorded dates of birth for the purpose of qualifying for benefit.

In addition to these entitlements, an amendment made in 1982 allowed members to pledge two-thirds of their accounts against loans from financial institutions and after 6 months default the pledge is invoked. This is a provision easily abused by a person wishing to withdraw without a valid basis. As a result, this change biased the scheme more towards meeting current social needs and away from the provision of retirement

benefits. In 1986 the Board was empowered to participate in businesses beneficial to members and to grant loans for this purpose. Special loan schemes were established for urban housing, rural housing, and furniture purchases.

Figure 4.14 Comparison of contributions & withdrawals

Source SINPF



As indicated in Table 4.4 and Figure 4.14, contribution income has been declining since 1999 and the contribution income has decreased by nearly half from SBD 49.4 million in 2000 to SBD 25.7 million in 2001. The contributions received in 2002 reached SBD 22.4 million which is 60 per cent less than the amount received in 1999.

In contrast to the decrease in contributions, the withdrawal amount has sharply increased during the period from 1998 to 2001. In particular, amounts withdrawn nearly doubled from SBD 27.6 million in 1998 to SBD 46.9 million in 1999. Having attained a peak at SBD 73.6 million in 2001, the amount withdrawn decreased to SBD 47.5 million in 2002. From 2000 to 2002 the amount withdrawn has exceeded the contributions income.

Table 4.5 Withdrawals from SINPF by grounds, 1997-2002

	1999	2000	2001	2002
Type of withdrawal				
Number				
Attaining 50 years	1,028	1,028	1,260	744
Death	123	176	186	226
Incapacity	268	1,018	119	81
Migration	159	215	238	179
Redundancy	1,656	2,064	4,024	1,885
Retirement after age 40	1,121	1,231	1,334	854
Refund	2	1	2	1
Loan pledge	316	314	256	91
Total	4,673	6,047	7,419	4,061
Amount			(in thousands S\$)	
Attaining 50 years	13,426	11,801	19,683	10,724
Death	1,125	756	1,141	1,067
Incapacity	1,676	6,604	772	661
Migration	2,474	5,033	6,136	1,929
Redundancy	5,569	8,917	16,191	7,200
Retirement after age 40	13,786	15,802	20,793	11,915
Refund	5	13	11	2
Loan pledge	5,025	4,682	5,740	5,480
Total	43,084	53,607	70,466	38,978

Source: SINPF

(iv) Financial operations

Table 4.5 provides data on withdrawals of the SINPF by grounds. The largest categories are attainment of age 50, retirement after age 40 and redundancy. These withdrawals have shown a rapid increase in recent years. In particular, redundancy claims increased sharply from SBD

5.5 million in 1999 to SBD 16.2 million in 2001. Also, claims by financial institutions for loan defaults constitute a significant drain on resources.

In contrast to the decrease in contributions, the withdrawal amount has sharply increased during the period from 1998 to 2001. In particular, amounts withdrawn nearly doubled from SBD

27.6 million in 1998 to SBD 46.9 million in 1999. Having attained a peak at SBD 73.6 million in 2001, the amount withdrawn decreased to SBD

47.5 million in 2002. From 2000 to 2002 the amount withdrawn has exceeded the contributions income

Table 4.6 Financial operations of SINPF (selected indicators) 1997 - 2002

Thousand SBD

	1997	1998	1999	2000	2001	2002
Contributions	36,565	46,655	57,158	49,418	25,682	22,360
Withdrawals	24,092	27,621	46,912	56,562	73,591	47,514
Interest on members' account	18,808	20,026	23,083	19,706	7,389	8,225
Interest rate credited to members		7.5%	8.0%	6.0%	2.5%	3.0%
Funds	309,189	346,978	378,220	393,651	365,986	353,172
- Contributions account	284,373	328,744	357,036	368,809	327,993	310,612
- Reserves	24,815	18,235	21,184	24,841	37,993	42,560
Amounts due	n.a.	43,614	13,843	12,883	93,440	107,489
- By the Government	n.a.	37,700	2,100	2,100	72,800	85,000
- By the statutory authorities	n.a.	5,914	11,743	10,783	20,640	22,489

Source: SINPF

(v) *Assets portfolio and investment earnings*

The total members' funds (contributions account and reserve) reached SBD 395 million as of 30 June 2000. For the financial year 2002, however, the fund level had declined to SBD 353 million, since the members account had decreased due to substantial withdrawals.

Since 1977, the SINPF has credited interest rates to its members ranging between 5 per cent and 11 per cent. Recently, market interest rates have reduced to a range between 1.5 and 3.75 per cent. The SINPF was obliged to declare the minimum interest rate of 2.5 per cent for the financial year 2001. In the following year, 2002, returns on most of its investments declined except for rental on properties, but the SINPF declared an interest rate of 3.0 per cent.

Table 4.7 shows the assets portfolio for the years 1997 - 2002. The fund is invested in bank deposits, government securities, loans, shares, and rental on properties. A large portion of the assets is invested in government securities, loans to the government and statutory bodies, which have not been performing well. As of 30 June 2003, the overdue amount by the Government and the government statutory authorities totalled SBD 107.5 million or 30 per cent of the total assets. (Of which, SBD 85 million was owed by the government and SBD 22.5 million, by the government statutory authorities.) A Court Order was obtained regarding a debt of SBD 57 million but this has not been paid to the SINPF. Newspaper reports on government statements on the recovery programme mention a debt compromise plan which implies that the SINPF at best will receive less than it is legally entitled to with adverse impacts on the rights of members.

Table 4.7 Composition of assets of the SINPF, 1997-2002

	(in thousands SI\$)					
	1997	1998	1999	2000	2001	2002
Current assets	59,591	52,022	83,920	59,998	57,242	45,779
- Cash	3,028	3,163	26,409	4,502	6,480	3,936
- Term deposit	42,350	35,000	45,000	45,000	39,000	25,300
- Receivables	11,383	10,750	9,263	7,248	9,553	14,355
- Others	2,830	3,109	3,249	3,248	2,210	2,188
Non-current assets	251,182	297,272	296,577	335,994	310,981	309,471
- Rental land and buildings	20,701	20,124	19,925	19,371	21,291	20,874
- Shares	10,237	13,755	13,755	63,419	66,370	66,370
- Government securities	76,776	119,016	115,449	127,760	97,254	94,271
- Loans	131,705	128,051	129,167	104,283	107,630	109,264
- Property, plants and equipment	11,761	16,326	18,281	21,161	18,435	18,691
Total assets	310,773	349,294	380,497	395,992	368,224	355,250
Amounts due	0	43,614	13,843	12,883	93,440	107,489
- By the Government		37,700	2,100	2,100	72,800	85,000
- By the statutory authorities		5,914	11,743	10,783	20,640	22,489
As a % of total assets						
Current assets	19.2%	14.9%	22.1%	15.2%	15.5%	12.9%
- Cash	1.0%	0.9%	6.9%	1.1%	1.8%	1.1%
- Term deposit	13.6%	10.0%	11.8%	11.4%	10.6%	7.1%
- Receivables	3.7%	3.1%	2.4%	1.8%	2.6%	4.0%
- Others	0.9%	0.9%	0.9%	0.8%	0.6%	0.6%
Non-current assets	80.8%	85.1%	77.9%	84.8%	84.5%	87.1%
- Rental land and buildings	6.7%	5.8%	5.2%	4.9%	5.8%	5.9%
- Shares	3.3%	3.9%	3.6%	16.0%	18.0%	18.7%
- Government securities	24.7%	34.1%	30.3%	32.3%	26.4%	26.5%
- Loans	42.4%	36.7%	33.9%	26.3%	29.2%	30.8%
- Property, plants and equipment	3.8%	4.7%	4.8%	5.3%	5.0%	5.3%
Amounts due	0.0%	12.5%	3.6%	3.3%	25.4%	30.3%
- By the Government	0.0%	10.8%	0.6%	0.5%	19.8%	23.9%
- By the statutory authorities	0.0%	1.7%	3.1%	2.7%	5.6%	6.3%

Source: SINPF

Many of the SINPF investments are non-performing and have accumulated huge arrears. This poses a major concern because despite actions currently taken, considerable doubt remains whether these arrears will be fully recovered. In the event that they are not recovered in full then their inclusion in the accounts will serve to overstate the financial position of the fund.

At 30 June 2004, arrears on the SINPF investment was SBD 89.7 made up as per Table 4.8.

Table 4.8 **Arrears on fund investment**

<i>Item</i>	<i>Arrears (\$)</i>
Rentals	6,535,141.98
Surcharges	5,103,529.80
Interest	19,109,593.87
Term Deposits	7,000,000.00
Bonds	15,600,000.00
Members Loans	4,177,019.50
Commercial	32,188,281.55
Loans	
Total	89,713,566.20

Source SINPF October 2004

The statements of accounts for SINPF for the financial year ended 2003 are provided in Annexes 2–5.

(vi) *Problems identified in the current SINPF scheme*

There is an urgent need to address the issues that are presently threatening the viability of the existing SINPF. The analysis in the previous section discloses that the SINPF has both intrinsic problems and external problems. On the one hand, the SINPF has its own problems with respect to the planning, management, and monitoring and evaluation. More specifically, these include the scheme design, financial management, administration, investment strategy and auditing. On the other hand, the SINPF is also affected by the current problems of national economy. In fact, it is difficult to sustain any social protection system under such a precarious economic and political situation. In this regard, it should be noted that the restoration of law and order is a critical prerequisite for any measures to recover basic social services and foster sustainable development, including the SINPF reform.

(vii) *Loose qualifying conditions for withdrawals*

The high rate of membership withdrawals prior to retirement should be addressed. It appears that the emphasis of the SINPF has shifted over time from saving for retirement to meeting current financial needs of members during their working lives. It is true that in the absence of unemployment insurance or any formal safety nets in Solomon Islands, the SINPF played a certain role in mitigating the adverse impact of the conflict by providing cash benefit for the redundant workers. However, this is at the expense of retirement

income. The outcome of this policy is to increase the numbers of retired workers who need to rely on traditional family and community support systems.

Data suggests that the SINPF benefits tend to be used for purposes other than old-age income security which suggests that there are unmet social security needs among formal sector workers. This further suggests that other social security programs such as unemployment insurance, health insurance and maternity benefits and social assistance programs may need to be considered. More broadly, the need for assistance in housing and education should also be taken into consideration.

(viii) *Inadequacies of lump-sum benefits*

The members of the SINPF at retirement have no option but to receive their benefits as a lump-sum because the pension option has been discontinued.

It is widely accepted that lump-sum benefits are spent quickly by the recipients and their extended families. Lump-sum benefits are vulnerable to pressures for speedy consumption but this is exacerbated when community and family obligations are as strong as they are in the Solomon Islands. It is also a general view that members starting businesses with their lump-sums may fail due to lack of business experience but also other problems faced by the private sector such as lack of access to credit facilities, poor business planning, excessive competition etc. The original purpose of the SINPF was to build up savings for retirement but recent trends in the relatively small sums paid out at retirement age suggest that the accumulated savings are inadequate for this purpose.

Although very little is known about the socio economic conditions of retired persons and the extent of financial hardship and poverty, it is obvious that persons in receipt of guaranteed income in the form of a pension would be less vulnerable and less dependent on the limited support available from families and communities.

(ix) *Low coverage and compliance*

The scope of the scheme is limited to workers employed in the formal sector. Self-employed workers and workers in the informal economy, who comprise the majority of the workforce, are

outside the compulsory coverage of the scheme. The compliance of contribution payment stood at significantly low level (less than 50 per cent). This will further reduce the effective number of contributors.

(x) *Financial implications of massive redundancies*

The massive redundancies have created serious financial problems. On the expenditure side, under the lax benefit qualifying conditions, the amount of withdrawals has increased sharply. On the income side, the number of contributors has decreased due to closure or downsizing of major companies, including the government which continues to undertake redundancy measures. For the last 3 years the withdrawals have exceeded the contribution income. The financial problem requires urgent actions to prevent further erosion of the stability of the fund.

This invites another problem because the most of the SINPF assets are kept by the government and statutory authorities which are unable to redeem their obligations when the SINPF needs to liquidate its investments to cover the cash-flow requirement. This will place the fund in danger of experiencing liquidity problems. A liquidity crisis could result in the SINPF default of benefits, which will entail a much graver problem of erosion of public confidence in the scheme. The fund managed to survive the worst period, but the situation is still vulnerable and poses a serious threat to the sustainability of the fund.

(xi) *Problem of the Government finance*

With shrinking economic output, low tax revenue and accumulating public debt, the government finances are in a parlous state and without foreign assistance the situation in the short term could become critical. Failure of the government and statutory authorities to redeem matured securities and non-payment of contributions are undermining financial stability of the SINPF.

Usually, the government is required to act as the guarantor of last resort in the event of emergent insolvency of the social security fund. However, in the case of Solomon Islands, the failure of the government and statutory authorities to meet their obligation worsens the financial difficulties facing the SINPF.

(xii) *Problem of the domestic capital market*

In general, the basic principles which govern the investment of social security funds are safety, yield and liquidity. However, these investment criteria are not always satisfied. One of the reasons is a lack of sound governance, when political priorities rather than social security concerns, take precedence over these basic investment principles. Another reason for investment failure is the non-existence of a properly functioning capital market. In this respect, developing countries (such as Solomon Islands) have particular problems in finding suitable investment opportunities which meet the desirable criteria. In view of the fact that the long-term domestic capital market in Solomon Islands is not yet fully developed, retaining a substantial level of reserves constitutes a considerable risk if the funds are not safely invested and fail to maintain their real value against inflation.

(xiii) *Options for reform*

In the ILO review report of October 2003 a number of recommendations were made which consisted of immediate actions needed for the reinforcement of the financial basis of the fund and long-term measures to extend the scope and coverage of the fund. Many of these issues will be considered as part of the project on social security in Pacific Island countries during the feasibility studies.

(xiv) *Tighten the conditions for withdrawals*

The SINPF should stop restrict the opportunities for early withdrawal of the provident fund balance, which will weaken the economic protection for old age. It is recommended that:

- The normal retirement age should be raised to 55 years of age, or higher,
- Entitlements to withdraw on grounds of retirement after age 40 should be repealed,
- The payment period of withdrawal on redundancy should be changed from 3 years to 5 years. The payment should cease if a beneficiary finds a job,
- Abolish the loan pledge. A housing loan with tighter conditions can be introduced, and

- A minimum sum of one-half the balance could be retained by the SINPF in any withdrawals prior to retirement.

These recommendations will also mitigate the heavy drain on the fund and members' balances. Regarding the redundancy problem, the focus of the benefit has been limited to the grant of the cash benefit but other labour market policies such as placement and retraining are equally important. In parallel to these policies, formulation and implementation of active labour market policies are also required.

(xv) *Repayment of the Government bonds and loans*

The government should give high priority to the repayment of its obligations with the SINPF, which have been long overdue. In conjunction with financial system reconstruction, the government should develop a repayment schedule for the pending obligation to the SINPF.

(xvi) *Review of the investment policy: overseas investment*

In the event the Government is unlikely to meet its obligations immediately, the SINPF should review its investment strategy to shift from heavy dependence on long-term government securities to short-term liquid instruments such as private bank deposits, to meet the current cash requirements.

Consideration should be given to allow the SINPF to invest overseas. The Government's policy to restrict the fund investment within the country is understandable, provided that these savings are invested productively and contribute to economic growth. On the other hand, the investment portfolio needs to be diversified to minimize the portfolio risk. The capital market in Solomon Islands at the current level of development can provide only limited opportunities for diversification. Given the weakness of SI dollar which is subject to further devaluation, the SINPF is more likely to have exchange rate profit than is exposed to exchange rate risks. In view of these advantages, measures should be sought to pave the way for the overseas investment. The assets should meet the safety criteria and the amount should be initially bounded by a relatively low maximum limit (for instance up to 10 per cent).

(xvii) *Conversion of lump-sum payment into annuities*

The conversion of lump-sum into pensions is recommended as it will provide workers with regular income after retirement and also provide immediate relief to the cash-flow problems of the SINPF. There are two methods to convert lump-sum payments into periodical payments: namely, the payment of an annuity and the conversion of national provident fund into pension insurance. This will be the subject of a separate feasibility study in the second phase of the project.

(xviii) *Future prospects: extension of social protection*

In the future, as the country recovers and finds itself in a more sustainable development path, steps should be taken towards the extension of social protection.

The basic elements of coverage in this context refer to meaningful, appropriate as well as personal membership of a scheme. The three dimensions in coverage extension are:

- Population coverage,
- Range of coverage, as regards the contingencies for which protection is afforded, and
- Level of coverage protection in such respects as the level of benefits and the mode of payment (e.g. pensions or lump-sums).

(xix) *Extension of the population coverage*

Social security is a basic right and should be available for all population. In order to extend the social security coverage, the following general observations can be made. First, there is no unique solution to the goal of universal coverage. Therefore, the extension strategy should reflect the specific condition of Solomon Islands, in particular a large non-monetized subsistence economy. Second, it may be unrealistic to rely only on the SINPF to cover the self-employed workers and workers in the informal economy.

The ILO considers four feasible options for the extension of social security coverage.²³ They are:

²³ ILO "Social security – a new consensus" (2001). Chap. 3.

- Extending existing statutory social security schemes,
- Encouraging the development of micro-insurance schemes,
- Introducing tax-financed universal benefits scheme, and
- Establishing tax-financed means-tested benefits (social assistance, or safety net).

The national action plan for extension of social security in the Solomon Islands that will be produced as part of this project will address these issues in more detail.

(xx) *Extension of the SINPF benefits*

The SINPF will be assisted by the project to consider other social security programs including, death (survivors), disability, medical care, maternity benefits and unemployment benefits. Institutional issues will also be addressed in the training program for SINPF managers and other studies as part of the project.

Box 4.3 *Solomon's Mutual Insurance Ltd. (SMI)*

Solomon's Mutual Insurance Ltd. (SMI)

The long-term direction of SINPF with regard to other social security programs, such as those pertaining to death, disability and medical care, were considered as part of separate insurance options. The SINPF expressed its intentions when it co-founded the Solomon's Mutual Insurance Ltd., (SMI) in 1997 with an equity ownership of 75 per cent. It immediately enrolled the SINPF members using SINPF reserves in the company's group life plan, thus enabling members to instantly get protection against death, disability and health risks. Unfortunately, this arrangement was short-lived and lasted only until the end of 1998 because of certain legal disagreements that have not been resolved to date, despite the consultations that were conducted prior to the start of operations of SMI. The objections arose from the ownership structure of SMI, which is co-owned by the Workers Mutual Insurance of Papua New Guinea (15 per cent) and by its General Manager (10 per cent). SMI now operates as an ordinary insurance company that must market and promote its products that now include endowment plans and annuities.

(xxi) *Amendments to the SINPF Act*

SINPF has already initiated reforms for the purposes of restructuring and formulated a plan for important changes designed to restructure the scheme and focus it on its original objective. A draft amendment Bill, suggested the following proposals:

- Members claiming at age 40 on the grounds of retirement would be entitled to one-half of their balances with the remainder payable at age 50,
- Abolition of the loan pledge system,
- Increasing the employee contribution from 5 per cent to 7.5 per cent,
- Splitting the individual accounts into two accounts. The contribution account would receive 10 per cent of contribution for the purpose of old-age income protection and the Special Benefit Fund (SBF) will receive 5 per cent for various other social purposes. Upon the approval by the board, the SBF would be used to meet members' short-term needs,
- Abolition of the special death benefit,
- The Board to appoint the Chairman in order to avoid possible conflicts of interest when the Permanent Secretary of Finance is ex officio Chairman, and
- Change to the law on nominations to eliminate inequities suffered by spouses and children and also to ensure that not only would a nomination become null and void on marriage but also a nomination of a spouse after a legal divorce.

A bill containing these proposals was presented to the Minister of Finance to be tabled to parliament. The Minister of Finance and the SINPF Board members undertook a study tour to Fiji National Provident Fund in September 2003.

Many of the above proposals are in line with the policy options formulated earlier. Comments are in order regarding the division of the individual account into two accounts. It is understood that this aims at preserving at least two-thirds of the balance for savings for old-age, death and invalidity. Nevertheless, there is a risk of failing to secure adequate balances because the retirement age is still set at 50 years which is exceptionally low in comparison with the great majority of developing countries, and benefit is still paid in the form of lump-sums. Therefore, in conjunction with the above proposal, serious consideration should be given to increasing the retirement age to 55 years as a minimum and to transforming the benefit into periodical payments.

Another issue to be mentioned is the abolition of the special death benefit. While the provident fund benefits are based on savings, this benefit component provides insurance against the risk of death. Administration of this benefit is relatively simple within the framework of a provident fund. The special death benefits could be retained by the scheme and benefits improved to protect against inflation and to introduce a social insurance component by making the contribution proportional to the gross wage.

(xxii) *Operations and IT*

The current SINPF contribution system is an NCR UNIX based operating system that is more than 10 years old and that is now obsolete. The NCR hardware is also obsolete and no longer supported by the manufacturer and there is limited supply of spare parts. While the UNIX system is still operational there is a degree of business risk of hardware and operating system failure that could result in disruption to the SINPF core IT operational functions.

The COBOL programming tool is outdated with scarce availability of programmers and skills. Maintenance of the COBOL application requires enormous effort and is inefficient compared to newer technology.

The NCR hardware is also running out of disk space due to the rapid growth of contribution data. Since the NCR hardware requires specific types of hard disk, it is difficult to source it within a reasonable timeframe. Recent experience shows that an average duration of the product technical support for computer hardware is 3-5 years. Trends indicate that this period is dropping steadily.

In view of the above difficulties in maintaining the UNIX based system, the SINPF board and management team have decided to replace the UNIX based COBOL contribution system with a platform that is more efficient and gives a lower risk of business disruption.

(xxiii) *Systems implementation*

The ILO review conducted in 2003 provided an overview of the integrated system development and implementation that has only been partially completed and its effects on the ongoing operations.

Box 4.4 A brief review of IT activities in SINPF

A brief review of IT activities in SINPF

Late 1980s

- Implementation of Computerized Contribution System in the UNIX and COBOL environment.

1993

- Plan to introduce an integrated Contribution, Financial Management and Loans management System.

1995

- Discussion and development of the NPF2000 system begins.

1999

- Implementation of the NPF2000 System
- NPF2000 System Parallel Run

2001-2002

- Discontinuation of the NPF2000 system implementation except for the cashier and pledges modules.
- Implementation of the Greentree Financial System
- Development and implementation of the employer surcharge system
- Development and implementation of the human resources management system

2003

- Suspension of the Greentree Financial System Implementation Project
- ILO review of SINPF Information Technology Systems

In 1999, SINPF started the implementation of the NPF2000 system which is an integrated software system developed by Datec Limited. The technology used for the system is Visual Basic Version 5/6, Microsoft-SQL 7, and Seagate Crystal Report Writer.

The NPF2000 system consists of the contribution system and financial system and comprises the following modules:

Contributions system

- Employer's accounts,
- Employer surcharges,
- Members' accounts,
- Nominations, and
- Withdrawals.

Financial system

- General ledger,
- Cash management,
- Accounts receivable,
- Accounts payable,
- Inventory and loans management modules.

During the conversion from the UNIX based system to the NPF2000 system, parallel processing of both systems was undertaken from July 1999 to June 2003. As of December 2003, the NPF2000 system was only partially implemented. The nomination and cashier modules are in full operation while the pledges module is still in partial operation. However, core modules of the contribution and financial systems have not been implemented.

As a result of the delays and incomplete implementation of the system, software application technical support was discontinued by the software suppliers and developer. The NPF2000 system is currently supported and maintained by in-house IT staff. Almost 4 years of parallel processing and double workload together with unsuccessful system conversion attempts have impacted negatively on the workload, workflow, and morale of the SINPF staff and the confidence of management.

The main causes of the delays in the SINPF 2000 systems project development were:

- There was no system and application documentation or no application procedures manuals provided after each development phase,
- Failure to record all contributions in early 1999 and 2000, which resulted in discrepancies between the data held in the UNIX system and the NPF2000 system.
- Inadequate staffing (only 1 or 2 staff members) for the development and maintenance of the software application,
- Ineffective project management,
- Poor skills at operational level on the decentralized account maintenance,
- Turnover of trained staff with technical and software applications business knowledge, and
- Lack of specialized training on the NPF2000 system for the current IT staff.

The ILO review of IT and operations in 2003 recommended the following actions to recover the SINPF operations to a stable business environment:

- Establishment of an IT steering committee to oversight the IT strategic plan,
- A description of three implementation strategies based on a business priority approach, a hybrid approach and a big-bang methodology,

- Upgrading the main hardware platforms as a matter of urgency,
- Completion of the data reconciliation, and
- Rebuild the capacity and redundancy in the IT team.

The ILO report also provided a data reconciliation implementation plan and an IT improvement road map for 2004 – 2005.

(xxiv) *IT update*

The SINPF is in the process of implementing the IT improvement roadmap 2004 – 2005 as recommended by ILO in 2003. Whilst there has been some slippage in the suggested timings, the following tasks have been completed:

- An IT steering committee has been established and it has endorsed the short and medium term IT strategy;
- The original NPF 2000 system developer is engaged on another project in Australia but has committed to providing ad-hoc assistance to the SINPF during this phase;
- A quote has been obtained to fully complete the NPF 2000 system including the financial modules and this was in the order of SBD 1.3 million and about 6 months development time;
- Data conversion from the UNIX system is now essentially complete with the exception of some verification processes and single input to the NPF2000 system was scheduled to commence on 26 September 2004. The UNIX system will be used for enquiry and problem resolution only; and
- The current outstanding issues are that the steering committee needs to measure the performance of the NPF2000 system and ultimately to make a decision on whether to go forward with the system or revert to the previous UNIX system. It may take some time to evaluate NPF2000 which appears to be working satisfactorily at this stage;

One of the problems identified during the mission was that there is no systems documentation for the NPF2000 system and this should have been part of the contract and provided with each completed module. Unfortunately there is no guarantee that the documentation will be correct even if purchased at this late stage. Investment of an additional SBD 100,000+ for the documentation would be questionable, however this may need to be re-considered if NPF2000 is

to be completed and upgraded to become the corporate software for SINPF.

(xxv) A financial system for SINPF

In relation to the financial system requirements the ILO review produced the following most likely options available to SINPF.

Option A: Revival of the Greentree project with the current consultants

This option requires the least resources in terms of IT investment and the shortest delivery lead-time in comparison to other options. This option involves the resolution of the existing disagreements with the current consultants, Moore Stephens Technology, and resuming the project from where it was suspended. For the success of this option, analysis of the failure in the last attempt, better understanding of the SINPF requirements, and responsibilities of all parties with proper project management, longer on-site technical support period and refresher training are required.

Option B: Revival of the Greentree project with new consultants

This option is similar to the first option with the exception that new consultants will implement the Greentree and train the SINPF staff on its operation. There are many other choices of value added resellers (VAR) and consulting firms for the Greentree software. This option does not require SINPF to buy the Greentree software again but it requires the new consultants to learn the SINPF requirements before implementation. It requires a longer delivery lead-time and is more costly in comparison to the first option.

Option C: Use of the NPF2000 financial module

This option involves the use of existing financial module that is integrated in the NPF2000 system. There is a need to understand the rationale of the previous SINPF decisions to select the Greentree product over the NPF2000 financial module. Detailed analysis is required to fully assess the suitability of the NPF2000 financial module for the SINPF requirements.

Option D: New financial software

This option involves the purchase of yet another financial software programme. It requires a conduct of a thorough business analysis of the SINPF business requirements and a detailed analysis to fully understand the functionality of the proposed financial systems and to determine the suitability for the SINPF business requirements. This option requires a long delivery lead-time in view of the time needed for a competitive tender for the supply of a financial system, implementation and training and on-going technical support.

Summary of options

The following table compares the major characteristics of the four options for financial system.

Table 4.9 Summary of options for financial system

Financial System Options	Delivery Lead Time	Capital Investment	Maintenance Cost	Training Required
Revive Greentree project with current consultants	Low	Low	Medium	Low
Revive Greentree project with new consultants	Medium	Medium	Medium	Medium
Use the existing NPF2000 financial module	Medium	Low	Low	Medium
Purchase a new finance system	High	High	Medium	High

The IT team needs to produce an IT strategic plan that describes the software and hardware development strategies. It also needs to describe the software and hardware maintenance strategies and the upgrade path. It may be prudent to replace hardware annually on a four year replacement cycle so that part of the network is upgraded each year so that costs are spread evenly. The other option is the complete upgrade of the network in one year, the budget implications of this option can be severe. This plan needs to be endorsed by the board so that appropriate funds can be committed.

The IT staff should also conduct IT awareness for the board and other managers either in the form of short presentations or information fact sheets so that management in general is aware of the core issues in managing IT environments like the options of *build or buy* systems and *in-house or*

outsourcing of hardware and software, upgrading systems etc.

4.9 Workers' compensation

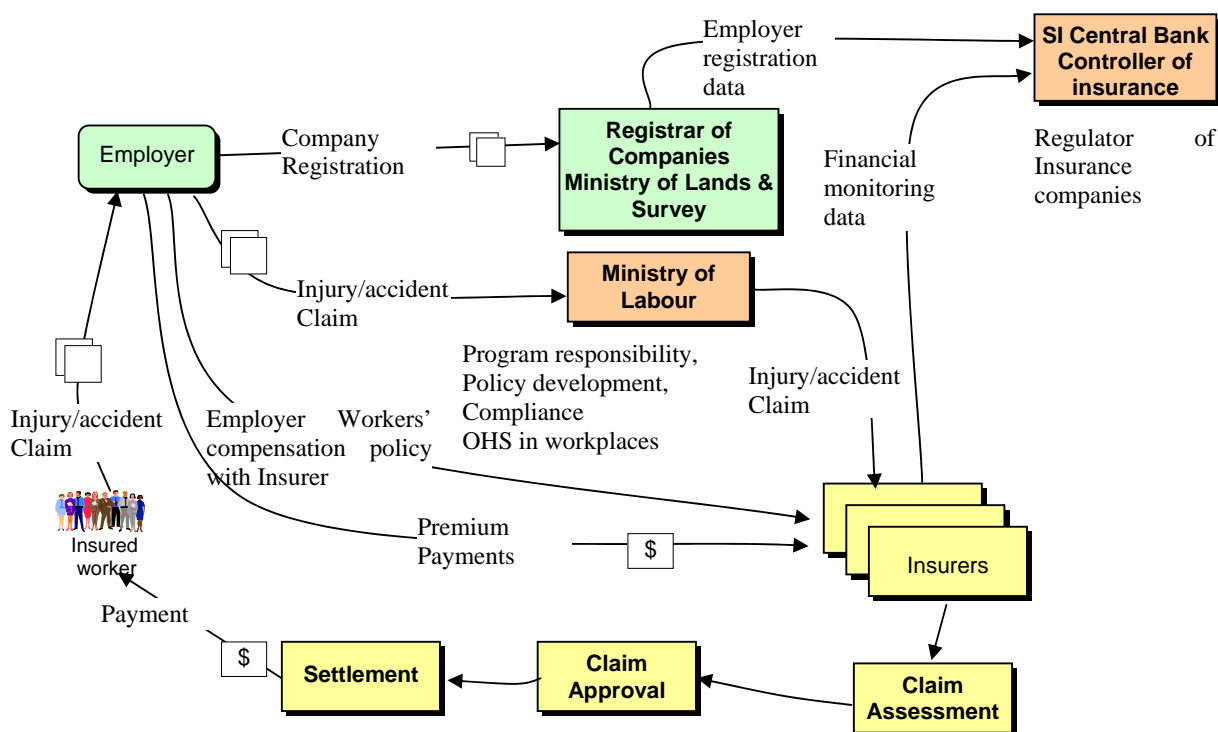
All employers in the Solomon Islands are required to provide workers' compensation for all employees and to hold appropriate insurance policies that cover their workers. The current legislation dates from 1 October 1952 and has undergone numerous amendments, the most recent in 1979. The legislation is British sourced legislation similar to that used in many of its previous territories and colonies. The compensation payable for designated injuries is specified in the act and is based on a percentage of the gross average salary over the previous two month period. Many of the illnesses including poisoning etc are based on a range of very limited industrial agents that have been superseded by a much greater range of agents in type and potency since the act was promulgated. The government is exempted from the mandatory insurance provisions and provides continuing employment and treatment at government health centres and hospitals for its injured workers. Although this is not cited in the Act, it is assumed that this was mandated in parliament or under ministerial authority. The cost of self insurance by the government should be compared with the cost of equivalent policies provided by insurers. The administration costs and over/under servicing

should be examined on a business case and also the effect on the cost of premiums to the remainder of the workforce. By exempting the public sector from the insured pool serves to reduce the pool increase the risk and tend towards adverse selection of the blue collar occupations where traditionally claims are higher due to the nature of the work. Including public sector workers could spread the risk and group policies from the insurance companies could provide attractive premiums.

The Central Bank of the Solomon Islands is responsible for financial regulation of insurers through the Controller of Insurance and monitors the insurers in terms of reserves, risk, investment guidelines etc. The controller has problems similar to those other Pacific Island countries that use a hybrid form of workers' compensation and collating data and management information from a number of different sources, both government and private, is not very successful or reliable. The available data is financial only.

The compliance and workplace safety elements of the scheme are the responsibility of the Department of Labour. The tools available to the Department are very limited and the compliance process appears to be very rudimentary with virtually no cooperation between agencies for data sharing or data matching.

Figure 4.15 The current workers' compensation system in Solomon Islands



The existing system has a number of weaknesses and it is evident that the responsible authority for workers occupational health and safety and the workers' compensation program (Department of Labour) is unable to carry out its responsibilities due to lack of suitable management information. As a result of this the department is currently unable to advise the government on issues such as:

- The number of workers with workers' compensation cover,
- The number of workers without cover,
- The identity of employers who are in breach of the workers' compensation legislation,
- The premiums being charged to employers by the insurance companies,
- The benefits being paid for the range of injuries by the insurance companies,
- Companies with high rates of claims for injuries,
- Workers who have died or been permanently disabled in the workplace,
- A breakdown of the claims patterns and types of workplace injuries,
- The income, expenditure, cost of administration and profits made from the workers' compensation funds,
- A national compliance plan to specifically target those employers in breach of the legislation, and
- A comprehensive safety improvement program based on those workplaces with high workplace injury and illness rates.

The reason for the inability to advise the government is partially due to the distributed sources of information and that the Department uses a manual system of monitoring and claim registration and is unable to access the large amounts of data needed.

The Department is forced to conduct compliance and safety reviews in workplaces without a risk based compliance program and the reactive program is based on notification of serious injury and a random visitation program to employment sites.

The Department of Labour must be able to:

- Match on a regular basis, data of employer registration against employers with current workers' compensation insurance premiums to identify those in breach of the legislation.

The accuracy of registration of business names and current operating businesses is questionable as sleeping businesses may still have a business name. The active contributors to VNPF is also another indicator, albeit the accuracy is subject to degree of compliance of VNPF contributions,

- Be advised by the insurer and employer immediately of all claims resulting from serious injury or death to enable immediate investigation and to promote remedial safety actions in that workplace and in some cases initiate prosecution action,
- Monitor the pattern of workplace injuries through timely and regular information based on claims and injury reports.

The Department currently has access to some of this data through the injury claim reporting process where the Department is a link in the process chain as the point of initial lodgement and referral to the appropriate insurer for processing.

These situations do not arise in typical integrated workers' compensation systems where one agency (usually the government) has a substantial role in the processing of claims as well as developing policy and legislation. However because of the special nature of the existing process in the Solomon Islands where four key stakeholders are involved (this excludes the employers, employees, medical and rehabilitation agencies) an agreed automated management information transfer system needs to be introduced and for it to be effective it should be legislated so that the roles of administrators are clearly defined.

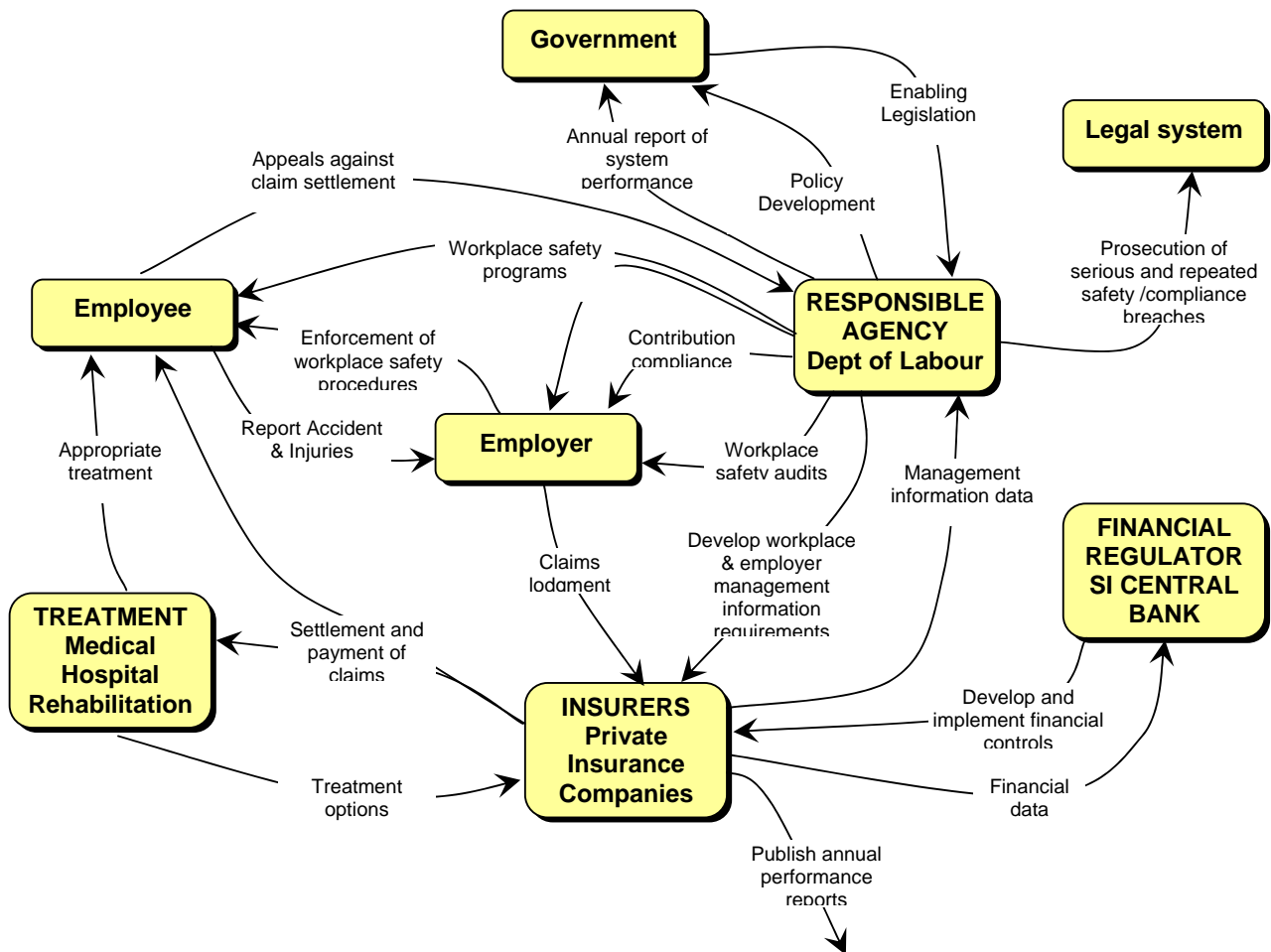
The workers' compensations context diagram shown in Figure 4.16 below is an overview of how the interrelationships between key stakeholders may be structured to produce an integrated solution by using the distributed agencies that currently exist in the Solomon Islands. Whilst this is a simplified overview it shows the context of the overall system and some of the key functions that need to be carried out and the feedback loops that are essential in an effective workers' compensation system. Improvements in workplace safety can only come from the bootstrapping effect that provides positive re-enforcement and rewards for good workplace safety and penalties for poor

workplace safety practices. The responsible agency as a government department which has quasi police powers of entry, search and prosecution is the only logical agency to carry out the overall improvement and system management functions.

A fragmented system such as the current system in the Solomon Islands also presents some financial problems for the responsible agency when it has no control over the income of the funds. As a result the entire cost of *worksafe*

promotions, compliance and other related functions are funded from the agency budget (i.e. government). In an integrated system some of these costs would be funded out of the program contributions, however in Solomon Islands all of the financial contributions are retained by the insurers. As they are responsible for the only one small part of the program (claims management), the government is now required to fund the improvement programs. A review of the entire program may address this issue.

Figure 4.16 Solomon Islands workers' compensation context overview



During this review issues such as medical assessments, medical boards and associated issues were not examined in detail partly because much of this is controlled by the insurance companies and comprehensive management information, annual reports or other data was not readily available.

It is recommended that a review of the system should be undertaken by an appropriate specialist

to determine from all key stakeholders their needs, and to ensure that each stakeholder is focused on maximising the benefits to employers and workers by improving workplace safety, minimising premiums and maximising benefits. The review should present options for improving the existing private insurance based system including the necessary legislation and compare it with an option for a government based proposal.

This may be possible as one of the feasibility studies in a later phase of the project

Before undertaking a review for the Pacific countries that are participating in this, project it should be noted that there are three distinct groups in relation to development of workers' compensation systems. Firstly Fiji has had extensive inputs into the development of a scheme but implementation has been inhibited by limited political commitment and the policy complexities. Secondly Samoa has a relatively successful system managed by a quasi government agency and accountable to the government and Ministry of Labour. Thirdly Vanuatu, Kiribati and Solomon Islands have relatively ineffective hybrid systems where insurance is provided by private insurers and the government retains responsibility for occupational health and safety and the monitoring of the scheme, generally by different Ministries, including Finance and Labour.

4.10 Microfinance

Credit Unions.

Credit Unions act as a form of financial intermediation, working in areas where commercial banks are unable to operate. Credit Unions are managed through an umbrella organization, the Solomon Islands Credit Union League (SICUL). Prior to the ethnic tension in 1999 the Credit Union movement had expanded significantly. SICUL had been strengthened with assistance provided by the International Fund for Agriculture Development (IFAD) under and ongoing Rural Financial Services Project, the implementation of which was co-ordinated by the Central Bank. There was significant evidence that credit union activity was substituting for bank credit particularly for consumer durables.

The credit union movement has now contracted considerably. Of the 165 registered credit unions prior to the tensions in 1999, only 17 credit unions were active in 2002. Two of them were from rural areas and the rest were urban-based and employee-based credit unions operating in Honiara. The two rural active credit unions were in Isabel province. There were no active credit unions in the other provinces. Due to financial difficulties, the SICUL, the umbrella body, was not able to provide the required services to its member credit unions, particularly the rural-based

credit unions. The League has concentrated on assisting the 15 urban-based credit unions. The auditing of the League's financial accounts for 2001 and 2002 is still to be completed.

Home Finance Corporation

The Home Finance Corporation (HFC) continues to face difficulties in fulfilling its primary function of providing housing loans. The suspension of its lending facility in 1999 due to lack of funds continued into 2002. There have been increased loan defaults as a result of various redundancy exercises that affected its clients. The HFC is venturing into real estate development by securing in 2002 a site of 5.8 hectares at Noro to build houses for sale. The site can accommodate 150 houses. The HFC is targeting the major companies at Noro, Soltai Fishing and Processing Ltd and National Fisheries Development as its clients. The proposed partial privatisation of HFC has not yet eventuated. There has been lack of investment interest from the public. It seems unlikely that this partial privatisation will come to fruition in the near future.

Other Institutions

NGOs and church initiatives. The country has a large number of active and effective NGOs that provide community services in a wide range of areas. These include leadership training, rural development and agricultural training, promoting food gardens and nutritional health, family health and family planning counselling, supporting self-help and self-employment initiatives and assistance to vulnerable groups. In addition there are a number of more specialised development NGOs whose work is primarily concerned with empowering people particularly at the grassroots level by extending their knowledge and understanding of critical development issues and their interests and rights. These NGOs engage both in public education and in providing practical support to local communities. They raise community awareness on development issues, which affect people's lives and futures and offer development alternatives. Churches on the other hand are involved mainly in providing vocational training through training programs of one to three years duration to youth. Presently 24 rural training centres provide vocational skills to approximately 1,600 students. These centres receive very limited government support.

Whilst there has been sectoral and community development programmes and projects, there have been no overall regional development strategy to provide a coherent development framework for these projects and programmes. Furthermore, there has been no overall assessment of the situation and progress of development in the various provinces. As part of the Poverty Reduction Strategy Program (PRSP), which began in 1998, the government initiated the process to formulate a regional/provincial development strategy. It allocated funds in the development budget for a national stock take to provide the base data for the situation analysis and formulation of the regional development strategy. UNDP agreed to provide technical and advisory assistance for national stock take and regional strategy formulation. However, the civil unrest intervened and the initiative was

abandoned. It is important and necessary to undertake this initiative.

4.11 Social protection programs in Solomon Islands - overview

Table 4.10 shows a comprehensive list of many of the major social protection programs that provide protection particularly for disadvantaged members of society. The responses in the currently available columns generally refers to those widely available and where there is only very small isolated instances then the response has been no although it is qualified in the remarks column. It should be noted that this is a subjective view based on the best available knowledge at the time of compilation and is subject to change as new programs become known.

Table 4.10 Social protection programs in Solomon Islands

Sector and Programs	Currently Available		Remarks
Labour Market			
Vocational training		No	
Income generation programs		No	Not part of labour but part of microfinance
Labour standards	Yes		
Apprenticeship training		No	
Gender equity programs		No	Mostly fragmented but not in labour
Collective bargaining	Yes		
Structural adjustment assistance		No	
Micro enterprise development	Yes		But only as part of informal microfinance schemes
Anti-exploitative programs		No	
Affirmative action programs		No	
Occupational health & safety	Yes		
Social funds		No	
Job seeker program		No	
Labour exchanges		No	
Social Insurance			
Old age pensions		No	Provident fund is lump sum
Disability benefits	Yes		Part of SINPF, formal sector only
Survivor benefits	Yes		Part of SINPF, formal sector only
Work injury insurance	Yes		Through private insurance schemes, compliance questionable
Private pensions		No	Minor mostly expatriate superannuation
Maternity benefits	Yes		Part of public sector and employment conditions, formal sector only
Unemployment insurance		No	
Sickness insurance		No	
Social health insurance		No	
Social Assistance			
Cash transfers for aged, widows & disabled		No	
Food for work transfers		No	
Food security programs		No	
In-kind education incentives		No	
School feeding programs		No	
Conflict compensation		No	
Utility subsidies		No	
Programs for disabled	Yes		Only trade union, private and family schemes
Homeless person assistance		No	
Medical rehabilitation	Yes		Limited to critical cases evacuated to Honiara or overseas
Assistance to disaster victims	Yes		Ad-hoc, only
Subsidised medical treatment	Yes		Part of national health care policy
Micro schemes			
Micro loans	Yes		Mostly concentrated in Honiara, not widely available
Micro insurance		No	Trade union schemes and NGO's only
Agricultural insurance		No	
Welfare funds		No	No central policy or development plans, sectoral only

Sector and Programs	Currently Available		Remarks
Assistance for disadvantaged minorities		No	
Child Protection			
Child maintenance		No	
Family allowance		No	
Human rights	Yes		
Scholarships for disadvantaged		No	
Vaccination programs	Yes		
Nutrition programs		No	
Rehabilitation programs		No	
Assistance for homeless youth	Yes		
Anti child labour/trafficking programs		No	Church based informal programs only

4.12 Gender Issues

It is evident that women cannot be fully appreciated in their participation and active contribution when legislation remains gender blind. In the Solomon Islands, the constitution and legislation including the National Women's Policy acknowledge the significant contribution and need for participation of women in the country in both the urban and rural contexts.

The difficulty of translating this national priority into outputs is the result of several barriers. The lack of infrastructure, technical and human resource, appropriate budget allocation and the existence of diverse women's groupings that are not unified under a common national body, are issues.

A concerted effort is needed to streamline priorities and deliver accordingly. A handicap is the fact that many of the tools used for management and deliverables are foreign concepts that work on the periphery of traditional tools. To what degree are traditional and custom systems and women's roles within these systems considered when developing and delivering services is a monitoring and evaluation question that needs to be answered.

Gender is cross-cutting and national political, cultural and economic stakeholders need a shift in perspective to realize much of what is documented under the RAMSI strategy and the National Women's Plan of Action. The lack of gender analysis and appropriate infrastructure apparatus to support this will continue to limit this.

4.12.1 Women for Peace Forum

A vision for a new Solomon Islands is what hundreds of women representing the 50 constituencies in the country are trying to establish in the Women for Peace National Forum held in the middle of 2004.

Funded by the Department of Foreign Affairs and International Trade in Canada, organizers carried out a survey to determine ways in which women were affected by the conflict and their aspirations for their country. The findings will form the basis of a workplan and strategy whereby women are advocating for real peace building process, through the various strata of society.

4.12.2 Women in nation building

The National Economic Reform Plan is another government blueprint developed as part of the post crisis period framework for restoring security and peace and collective participation in national affairs. The ambitious document however does not entail specific implementers yet includes women's collective participation for nation and peace building.

Economic opportunities and access for women and by women is progressive yet more can be done institutionally to accelerate this and realize holistic development. There is an assumption that traditional Solomon Islands existed on the premise of communalism and this being a heavy feature of the respective communities. Recently, alternative schools of thought have reviewed this premise and argued that communities and people within them were in actual fact individually family oriented with less degree of consolidation at the communal level.

This is interesting in shedding light on the systems that exist and working within that framework in regards to developing appropriate social security policy analysis.

4.12.3 National Council of Women

As the umbrella organization for women's organizations, the NCW was established by government in 1983. It is the national focal point of contact for women outside of government and advocates for women at a national level.

Recently, however, there has been an increase in women's organizations that do not affiliate to the NCW and this has seen a lack of coordination and duplication in work. It is not difficult to see several workshops taking place at the same time regarding gender and development that are not linked to each other.

The role of the National Council of Women is to work closely with the Department of Women. The Department of Women has a budget for personnel costs but much less is budgeted for programs and projects directed targeted at women. Initiatives revolve around skills building, garden and agricultural plots, sewing and handicraft. Staff shortages, budgetary constraints, accessibility to provinces and infrastructures remain obstacles. The close relationship between the Department of Women under the Ministry of Home Affairs and the National Council could compromise the independent status of the NCW.

Lack of current data at the national level, data base systems, appropriate budgetary allocation and documentation of programs remain some of the crucial loopholes in gender analysis in the Solomon Islands. The presence of RAMSI technical assistance particularly from Australia is working with national counterparts to rectify some of these issues.

4.13 Initial observations of social security programs

The *social security gaps* in the Solomon Islands are substantial with the formal economy workers protected against some loss of income due to age, death and disability through the provisions of the SINPF. Basic health cover is provided by the government with a moderate charge levied on hospital care and whilst workers' compensation is compulsory, the degree of compliance is uncertain due to the fragmentation and lack of

coordinated management information available about the system. Motor vehicle third party insurance is also compulsory being part of the vehicle licence fee. Apart from selected private insurance and micro schemes through credit unions and union schemes the majority of the population have no social security coverage and workers in the formal economy have access only to selected programs. Limited coverage for loss of income from sickness, unemployment, maternity, invalidity and for widows is unavailable to almost all of the population. Only some of the population have access to retirement, invalidity or death benefits. Social assistance and welfare payments only provided only by NGO's and donor agencies.

There is *no central or coordinating agency* to promote policy development and provision of social services. Development and job creation are the government's main priorities with the majority of the population expected to benefit from the trickle down effect from the jobs created by the development programs. As in many other developing countries this has not eventuated with most economic growth being associated with low employment. This together with low economic growth has been insufficient to absorb the new entrants into the workforce resulting in pressure being placed on the informal economy which continues to absorb the bulk of the new entrants into the workforce.

Whilst job creation is one of the surest ways to increase resilience of the population against poverty there needs to be some *balance between development and social security* which is the other means of increasing resilience against poverty. Social insurance by way of the savings invested in the funds can moderate fluctuations in the economy and the effects of economic downturns can be minimised by social security payments from the funds. This tends to sustain individual domestic purchasing power which can support the local economy. Social security payments can also defer the time at which households begin to divest themselves of assets, mostly at considerable loss in order to sustain themselves in times of loss of income.

Assistance to *victims of natural disasters* is still very much reactive and the government's requirement for all ministries to develop proactive programs has apparently not yet been completed. It is evident that without a centralised social welfare policy unit the welfare and social

assistance components of disaster recovery will be difficult to implement and individual sectoral programs are likely to lead to fragmentation of services. In order to alleviate the immediate effects of a natural disaster, a welfare program of immediate cash or benefits in kind can assist the local economy to recover more quickly by allowing purchase and recovery of local resources. However these in-kind and cash assistance programs need to have national and local components coordinated by the disaster recovery command team.

4.14 Immediate technical assistance needs

In the initial visit by the CTA and gender specialist the immediate needs that were identified and requested in Solomon Islands included:

- Microfinance in Solomon Islands is almost non-existent and previous efforts at developing micro schemes have been largely unsuccessful. The study on traditional systems and customs should be expedited to ensure that any micro scheme proposals are consistent with the traditional customs and values. National microfinance policies could be considered along the lines of those being developed in Vanuatu.
- The Ministry of Health and WHO have conducted preliminary studies on alternative means of increasing health funding including some form of social health insurance. As this is a common concern for most of the countries participating in this project, a feasibility study on health insurance options should be expedited. It was agreed with the country director of WHO that contact would be made with the respective offices in Manila to look at top down coordination and presentation of a

common strategy for the government on social health insurance.

- The workers' compensation programme in Solomon Islands is fragmented and lacks central control and monitoring, the details of which are discussed earlier in this report. A review of the existing hybrid system and the previous recommendation for a government controlled system should be conducted to provide the government with viable options for a comprehensive workable system.
- If the government wishes to achieve its social development goals then some form of *social protection reform task force* should be established to coordinate the activities of the various stakeholders and to direct social policy at the national level. A subset of the task force may form part the steering committee for this project.

4.14 Conclusion

This overview report has identified a number of gaps in social protection coverage and particularly in the areas of social insurance in the formal economy, social assistance and welfare services and in micro programs especially outside the major urban areas. The final phases of the project culminated in joint stakeholder workshops that made use of existing social security overview reports, surveys from informal and formal economy (provident funds members) workers and stakeholder inputs to identify the program gaps and priorities for extension of coverage. These recommendations were translated into feasibility studies of the major benefit types that formed part of the inputs to the final phase which was preparation of the national action plans for extension of social security coverage.

Chapter 5 Survey of Workers in the Informal Economy and Formal Employment Sector

5.1 Solomon Islands informal economy survey

5.1.1 Background

A detailed explanation of the characteristics of the formal employment sector and the informal economy is contained in chapter 3.

The aim of the sample survey of workers in the informal economy was to obtain some indicative parameters about the workers and their priority social security needs, who provides or will provide for these basic social security needs, gaps in coverage, and their potential to contribute to voluntary schemes. The survey also recorded some of the demographic and other details about the workers including their income patterns, work category, insurance and micro finance and membership of organisations.

5.1.2 Methodology

The survey was planned within the constraints of data availability and attempted to match the sample to the population distribution across the geographical zones where the informal economy occupations could be identified. Within the sample zones the participants were selected as randomly as possible and care was taken to avoid bias in the samples. Details of the data sources and sample selection are discussed below.

The data collection form and supporting instructions are provided in Annexes 7 and 8. It should be noted that the terminology used in the form was interpreted by the data collectors and presented to the participants in local language. A critical issue in the conduct of the surveys was providing data collectors with a good understanding of the requirements and their ability to translate the terminology into colloquial language. The data was collected by school teachers during semester break following briefings and form testing by the National Project Coordinator. The samples in Solomon Islands were taken from Guadalcanal and two other major islands Malaita and Western Province.

5.1.3 Sample selection

In Solomon Islands the 1999 population and housing census found that there were 130,267 economically active members of the workforce. Of these 109,733 were employed and 20,494 were unemployed and there were 30,366 wage and salary earners and by derivation this suggests that there were about 99,901 economically active members in the informal economy (including the unemployed).

By using a rounded total of 100,000 for the informal economy a 0.5 per cent sample for the survey would require 500 interviews.

In the absence of any formal classification of the informal economy a reasonable occupation based classification is listed below.

5.1.4 Classification by occupation

Exclusively rural

1. Farm and farm related activities comprising subsistence farmers, small landholders in specialised or mixed farming, landless farm workers and unpaid family members.

2. Fishing,²⁴ where this is the major income source. It is recognised that in some households income and subsistence will be derived by a combination of fishing and farming.

Mostly rural, some urban

3. Home workers including craft workers, mat weaving, garment making and housemaids.

4. Self employed workers including micro-entrepreneurs, small traders and miscellaneous enterprises.

Exclusively urban

5. Transport industry workers including taxi drivers, small repairers and other small transport passenger and freight services.

²⁴ This applies to coastal local fishing and not to commercial operators who are clearly in the formal economy

The 1999 Census found that 84 per cent of the workforce is employed in rural areas which have been defined by the Statistics Department as being fairly evenly distributed outside the greater Honiara Urban Area which represents about 82 per cent of the urban population in the Solomon Islands.

The predominantly rural occupations of farming and fishing are mostly male, the home workers are substantially female and the self-employed workers are likely to have a higher proportion of males. For the transport industry most of the workers are male.

Based on these assumptions and in the absence of any more detailed information about the distribution of occupations in the informal economy, the following distribution of the sample was made:

Table 5.1 Survey samples by occupation

Informal Occupation	Proportional Estimates		Sample Ratio	Sample S=500
	Rural	Urban		
Farm and Farm Related Activities	35%		35%	175
Fishing	25%		25%	125
Home workers	10%	5%	15%	75
Self Employed	10%	10%	20%	100
Transport Industry		5%	5%	25
Total	80%	20%	100%	500

5.1.5 Survey locations

The population distribution throughout the provinces as per the 1999 census is shown below.

- **Choiseul**, population 20,008, (4.9 per cent)
- **Western**, population 62,739, (15.3 per cent)
- **Isabel**, population 20,421, (5.0 per cent)
- **Central**, population 21,577, (5.3 per cent)
- **Rennell-Bellona**, population 2,377, (0.06 per cent)
- **Guadalcanal**, population 60,275 (14.7 per cent)
- **Malaita**, population 122,620 (30.0 per cent)
- **Makira-Ulawa**, population 31,006 (7.6 per cent)
- **Temotu**, population 18,912 (4.6 per cent)
- **Honiara**, population 49,107 (12.0 per cent)
- **Solomon Islands**, population 409,402.

Based on the regional distribution of the population and the observation made by the

government statistician that the rural population is relatively evenly distributed then the following distribution of the sample was made. Within each local sample a random selection of the relevant occupations was made for the individual surveys.

The guide to the distribution of surveys by locality was made flexible depending upon the availability of the occupation types. These locations were also selected at random based on varying population densities and in the vicinity of major service centres in order to obtain suitable survey staff.

Table 5.2 Survey sample by occupation and selected location

Informal Occupation	Location (% population)			
	Malaita (30%)	Guadalcanal (rural) Honiara (urban) (26.7% / 14%)	Western (15.3%)	Total (72%)
Farm and Farm Related Activities	80	60	35	175
Fishing	60	40	25	125
Home workers	20	20	10	75
Self Employed	30	30	20	100
Transport Industry		25		25
Total (% of sample)	190 (38%)	150 (30%)	90 (18%)	500

5.2 Informal economy survey findings

Aims and methodology

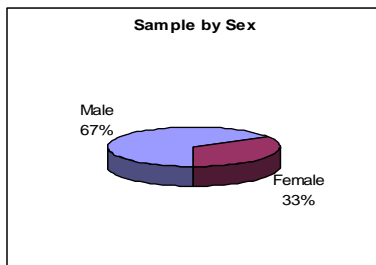
The scope of the survey was to obtain information from selected workers in the urban informal economy about personal details, education, employment, income social security needs, priorities and their capacity and desire to contribute to a social security scheme. During the survey, the interviewers provided informants with basic information about social security programmes available in Solomon Islands, as it was anticipated that many people would have limited understanding of the concept. The choice of employment category and location was based on proximity to major cities, earnings capacity, high social risk and potential to create groups of workers with similar work and life interests. The potential to implement a future pilot scheme and a subsequent social security program was also a key consideration.

Key survey results

The questionnaires of the survey were comprised of five parts; (i) personal details, (ii) employment, (iii) education, (iv) income and (v) social security needs, priorities and the desire to contribute. A summary of the key findings is presented below.

Personal details

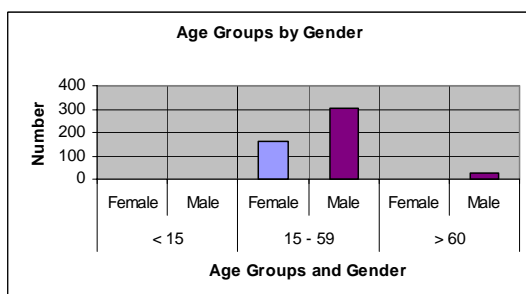
The balance between sexes in the survey was biased towards males because of the type of industries chosen. Many of the traditional farmers, fishermen and transport workers were males. The predominant work areas for females in unpaid family care, family business and home workers were less accessible to the surveyors. The sample correlates reasonably closely to the 1999 population census where 65 per cent of the workforce was male and 35 percent female.



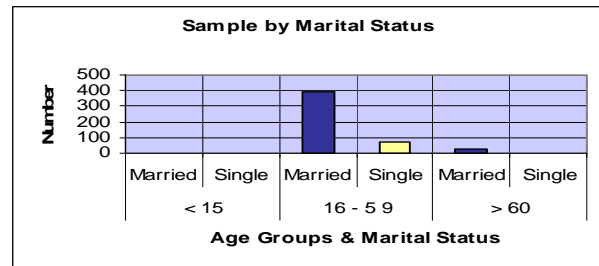
Age groupings

Age Group	Gender	Count
< 15	Female	0
	Male	0
15 - 59	Female	161
	Male	303
>60	Female	3
	Male	24
TOTAL		496

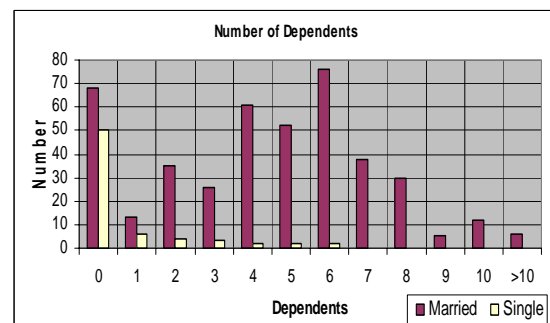
As expected the bulk of the sample identified people in the working age group aged between 15 and 60 years. The proportion of males reflected the overall gender ratio in the sample although in the over 60 years age group the gender proportion dominated by males.



Dependents and marital status



The number of dependents as shown in the following diagram follows a natural distribution curve with a primary peak at 6 dependents and a secondary peak at 4 dependents with the mode of six dependents per family. The weighted average would be closer to 6 dependents per family. This compares favourably with the 1999 population census where the average family size across the Solomon Islands was 6.3. The number of single parents was 21 in the sample of 500, which

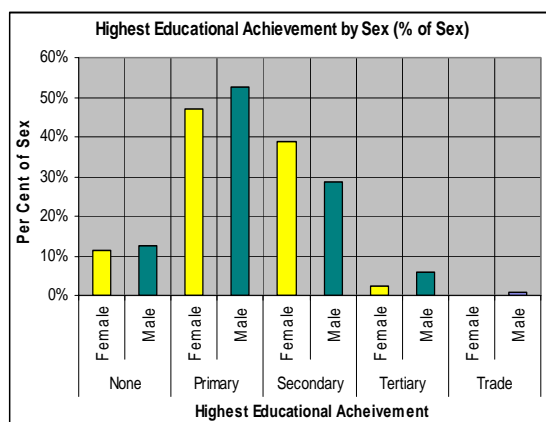
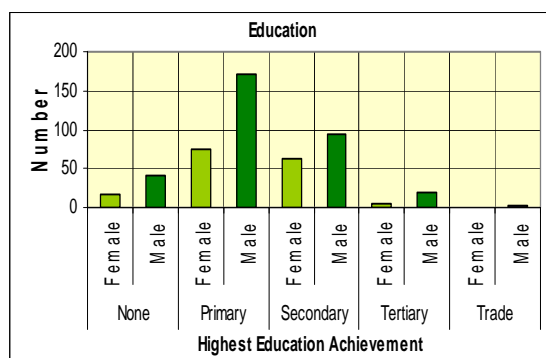


represents about 4.25 per cent of the sample. Given the bias of the sample to males this is not likely to represent the true situation of single parent families the proportion of female-headed households was not calculated in the 1999 population census.

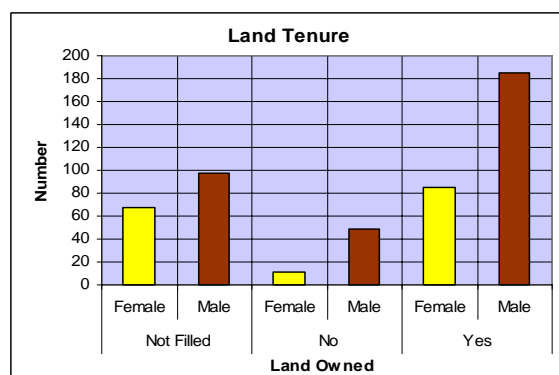
Education

The highest education attainment of the workers in the sample is shown in the following charts. In terms of absolute numbers in the sample, males represent the highest numbers in all categories of education. However when considered as a percentage of each sex in the second chart, it can be seen that males retain the highest percentage in all levels except for secondary education where women have a much higher percentage of secondary education than men. These findings reflect the situation in Solomon Islands however it is acknowledged that imbalance in education for females has been addressed and the national data shows increasing numbers of females attending school. These data reflect the relatively lower literacy rate in Solomon Islands which was

identified as 76 per cent in the 1999 population census and high rates in the order of 18 – 50 per cent not attending school. High illiteracy rates imply that operating within a social security program and maintaining claim requirements may present some problems for the average adult Solomon Islander.

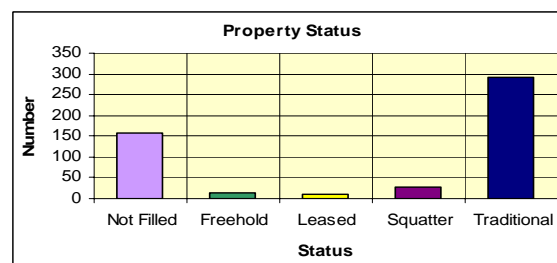


Land ownership



Land ownership posed some problems for surveyors and respondents alike and given that much of the sampling occurred in traditional villages and towns the ownership of land is not always clear. One of the benefits of the various traditional systems in the Solomon Islands is

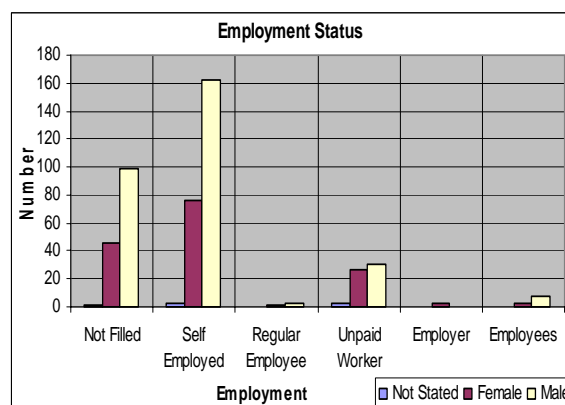
access and rights to land as part of an extended family group. Unlike in some Polynesian cultures, rights to land tenure diminish with extended absence. Many people in the country identified free-hold title as ownership which has been identified as the most likely cause of the high *no response* count for this question. The yes response demonstrates that land ownership is traditionally identified with males, despite the fact the some areas surveyed (Malaita) have a matrilineal system.

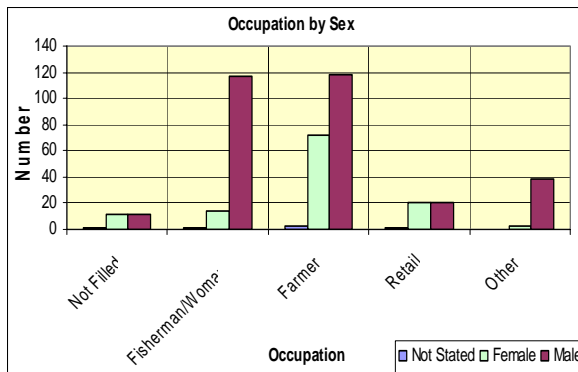


However the overwhelming response to land tenure was traditional land tenure and this is supported by findings in the UNDP Human Development Report 2002 which identified about 65 per cent of the population employed in traditional occupations.

Employment

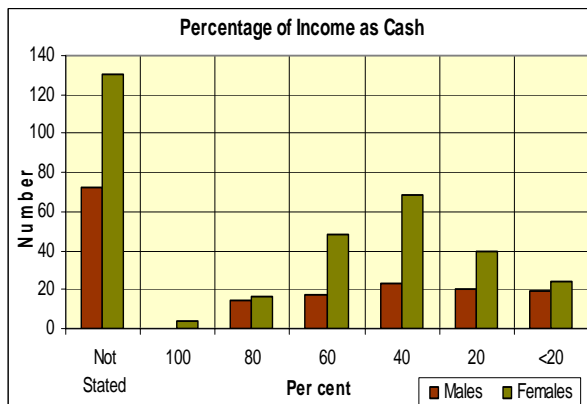
The employment status of the sample is dominated by self employment and unpaid workers. This reflects the traditional rural nature of the sample where families share the workload. The last two columns represent employers and the number of employees and it is clear that people didn't equate their status as employers or employees.





The occupation of the respondents in the sample reflects the nature of the rural areas in the Solomon Islands where fishermen, farmers and home workers together make up about two thirds of the occupations. The other category is a significant proportion of the sample, particularly amongst males and the occupations covered in the grouping are difficult to determine.

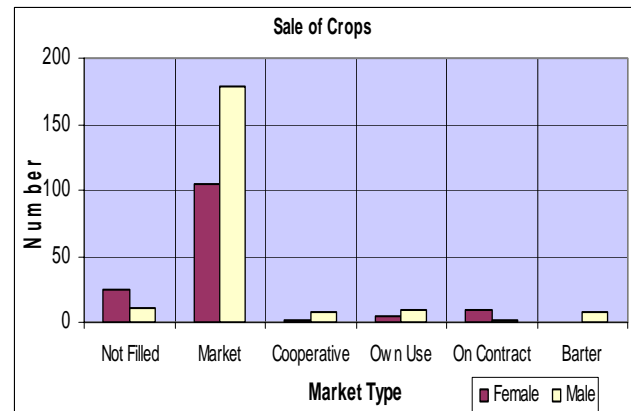
Income patterns



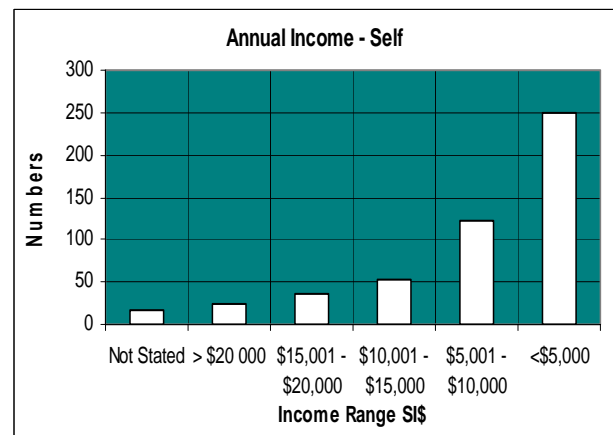
The question that asked respondents to estimate the percentage of their income that is cash was expected to be very difficult for informal rural workers; however almost two thirds of the sample were able to respond. The results show that about 40 per cent of the sample received over 40 per cent of their income in cash. This would tend to magnify the impact of contributions that might be made as part of a savings or insurance program when compared to the formal sector workers.

The main source of income for informal workers in the Solomon Islands is based on the sale of

produce, typically copra, fish, fruit, vegetables and handicrafts. The results of this survey suggest that almost all produce is sold in markets or by direct sale with almost no sale through cooperatives. The cooperatives can provide an avenue for centralised contribution collection at point of sale for micro schemes that can simplify administration. The alternatives are group building and maintenance which in most

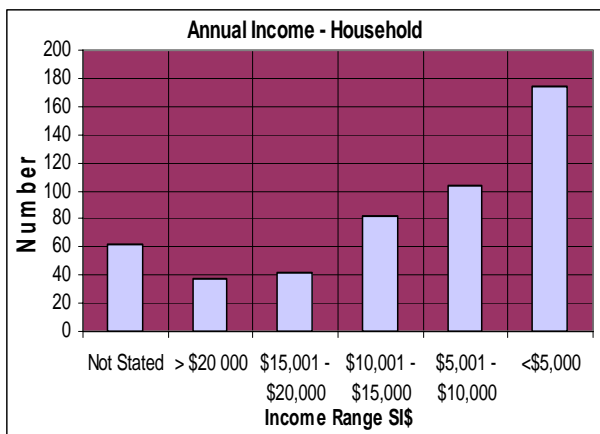


countries has proven to be an intensive and costly exercise.

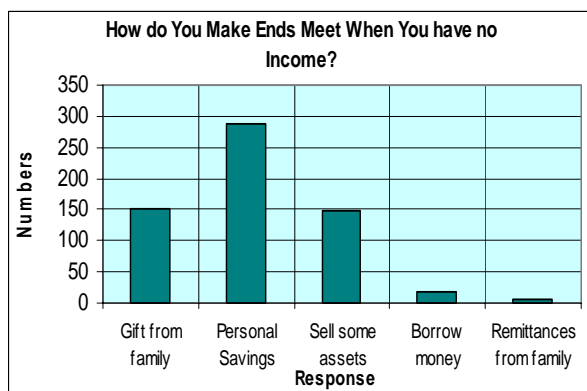


Individual and household income

The majority of individual respondents earn less than SBD 5,000 per year, however the mean income moves up the scale for households and the majority of respondents received between SBD 5,000 and SBD 10,000 per year for individuals, but for families the majority earn above SBD 5,000. The SINPF has identified that the modal salary is between SBD 5,000 and 10,000 per year and the mean salary within that band was assumed to be SBD 7,500.



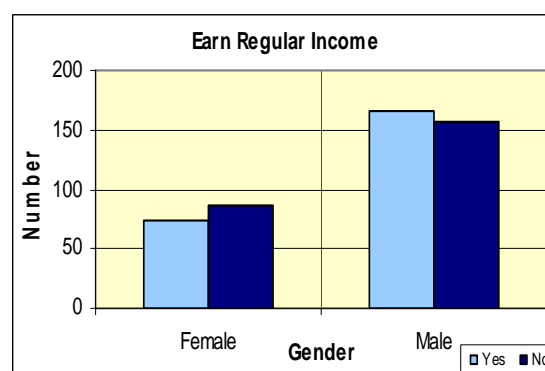
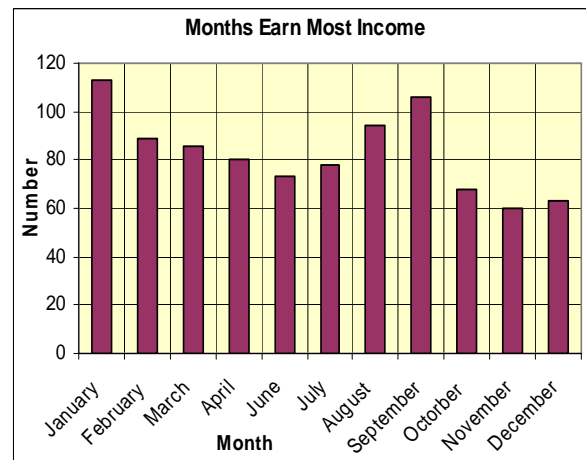
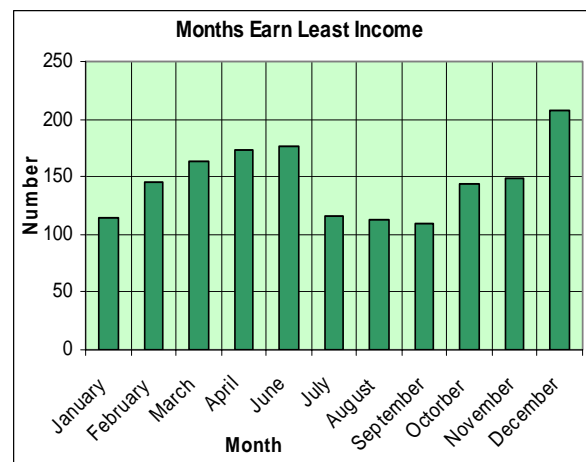
Respondents were also asked how they made ends meet when they had little or no income and the majority identified personal savings, with gifts and remittances from family equal in secondary importance. This supports the implication that informal economy workers have savings which are used to support their families and to purchase assets which can later be sold. The low response to borrowing money and remittances reflects the poor availability of micro finance in the Solomon Islands and the limited opportunities for emigration and foreign work.



The earnings patterns of respondents were considered to identify the degree of fluctuation, which may have a bearing on any potential voluntary schemes. Erratic income or large fluctuations would place considerable pressures on regular contribution collection. The gender balance was evident in the responses to regular income and the sample was equally divided on regularity and irregularity of income.

However this may be moderated by the methods of receipt of income and the seasonal earnings may be paid in lump sums although this could not be determined in this indicative survey. From the charts shown below, it can be seen that income

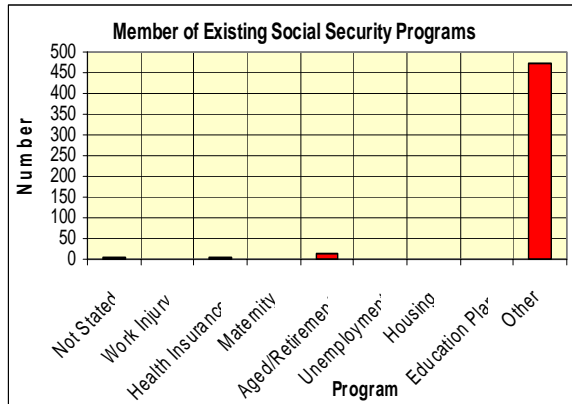
capacity is reduced over the spring months October to December



Social security needs and priorities

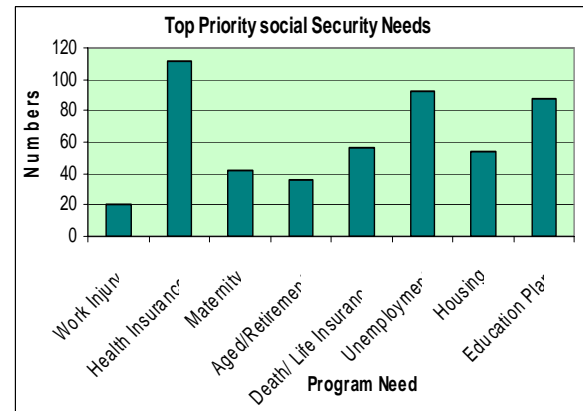
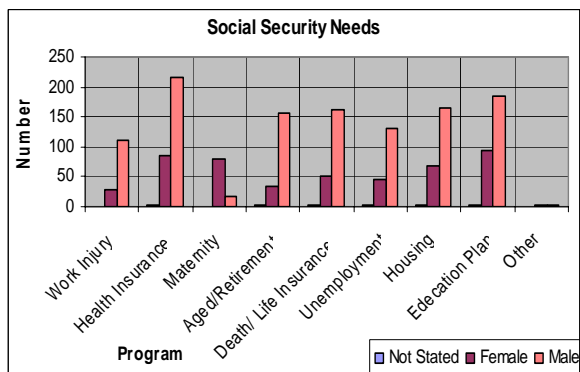
In this series of questions respondents were asked about existing membership in social security programs. It must be stressed that the questions were phrased in colloquial language and in simple terms that described the program by its effects

and not by title. The common social security program title on the charts is the translation.



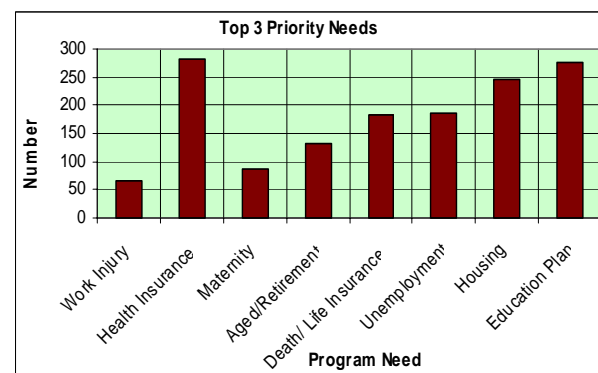
The results confirms the absence of any formal social security programs in the informal economy but the almost universal response of *other* suggests that people see traditional systems as a social security scheme. In a later question in relation to membership of other organisations, the only category that achieved a reasonable result was membership of credit unions.

Respondents were asked to identify their social security needs in the same colloquial language for previous social security questions. In this case multiple needs were accepted and from a sample of 500 people 1,496 needs were identified. It is interesting to note that health insurance was easily the most common need by males and the second highest for females after education plan, which was also the second highest need for males. This may reflect the low literacy rate and low school attendance in the Solomon Islands.

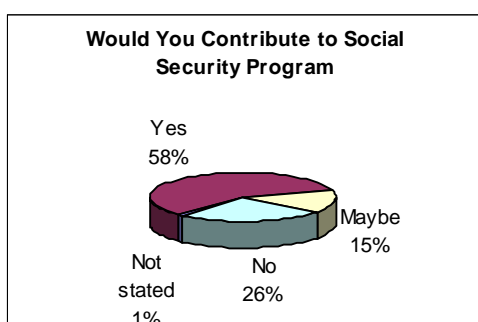


Respondents were then asked to nominate these needs in priority order and the following charts show the highest priority needs. The chart above shows that health insurance is the most popular need with unemployment and education also rating highly. The low response to age/retirement programs may be reflected in the age groups i.e. working age and younger people.

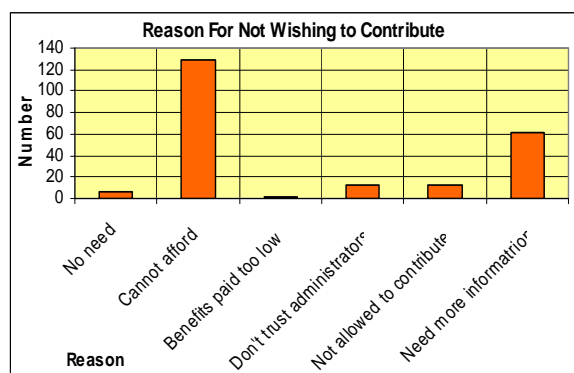
By grouping the top 3 priority needs identified by the respondents, the priorities are somewhat moderated but health insurance remains the most critical need. This was followed by high priorities in housing and education and at a lower priority were life insurance and unemployment programs. Maternity, work injury and retirement programs were the lowest priority, although given that females represented only about one third of the sample this rating may be skewed.



Social security contribution

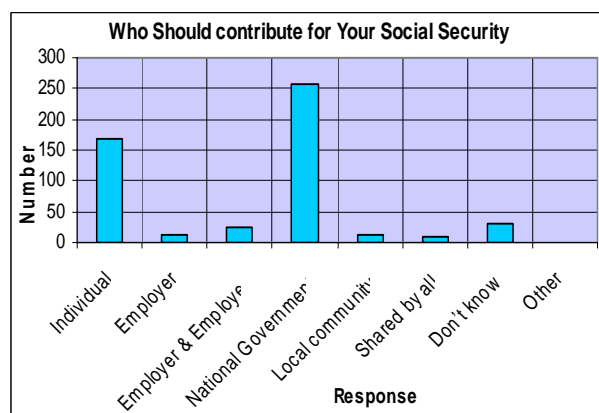


The response to the question about willingness to contribute to social security programs produced a surprising result of 58 per cent of respondents willing to contribute. If the *maybe* responses could be turned into positive response then potentially 73 per cent of respondents may contribute to a suitable scheme. Whilst there were no details provided on what level of contribution was required, or what benefits could be provided for different contribution levels, it is a positive point from which to explore the options for contributory social security schemes.

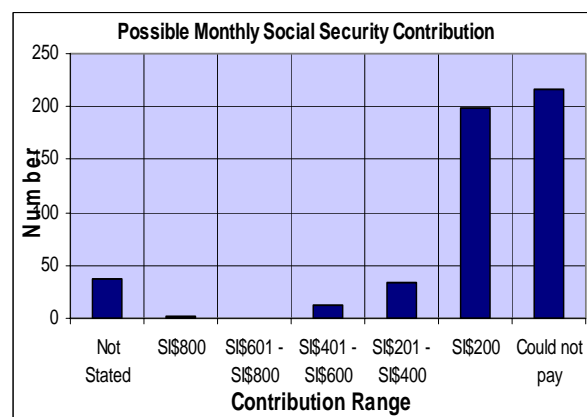


The reason for not wishing to contribute, *need more information*, reflects the high *maybe* response in the question above. It is obvious from the income levels that many people could not afford to contribute and this was the highest response, although less than half responded because this question was only asked of people who answered *No* or *Maybe* on the previous question (willingness to contribute).

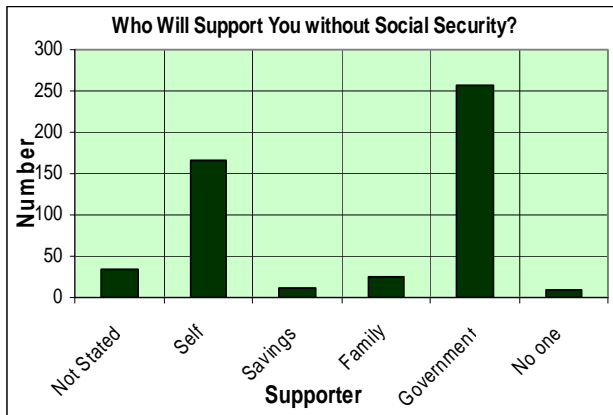
It is interesting to note that there were very few responses to the negative options like low benefits, trust in administrators etc.



In response to who should contribute to social security, *the national government* was the most common response by over half of the respondents followed by *individual* as the secondary response. This concurs with the willingness to contribute of about 58 per cent of those who participated in the survey. The low response for employer contribution reflects the predominantly self employed nature of the traditional informal economy in Solomon Islands and in the sample.



The level of contribution will ultimately determine the quality of benefits provided in any voluntary scheme. The amount volunteered by those surveyed is fairly modest and on their own would not provide for substantial benefits. About 45 per cent of the sample indicated that they could not pay and 40 percent of the sample could only contribute less than SBD200 per month. It should be noted that this question on the survey form was not matched to the potential salaries expected in the informal economy. As a result the bottom scale contained the majority of responses. The modal contribution for SINPF members is only around SBD 65 per month and on the survey from respondents assumed the options provided

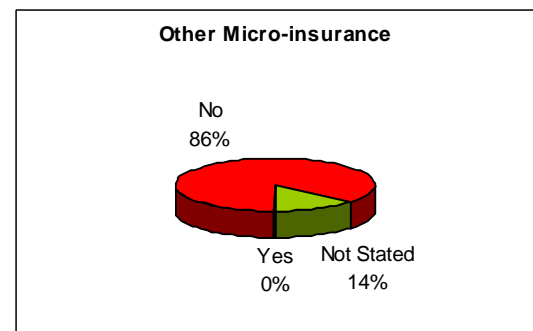
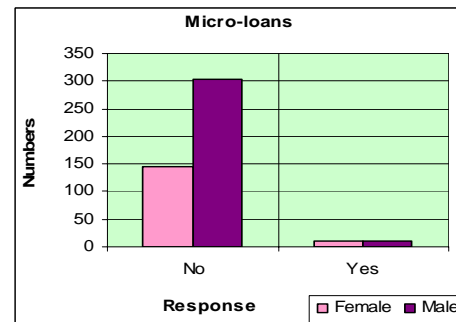
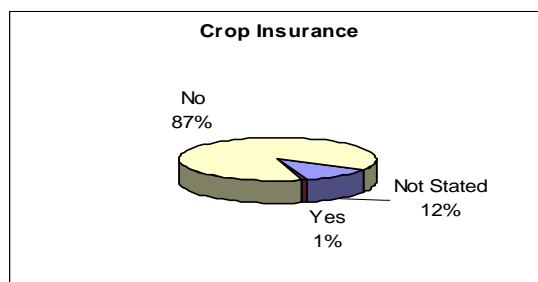


to be annual contributions and not monthly. Therefore SBD 200 per year represents the lower end of SINPF contributions in the SDB 5,000 salary range. Based on these assumptions, only around 10 per cent of respondents were prepared to contribute at the rate of the modal contributions in SINPF. These potential contributions support the responses about willingness to contribute to a scheme where 55 per cent declared willingness to contribute, albeit in small amounts.

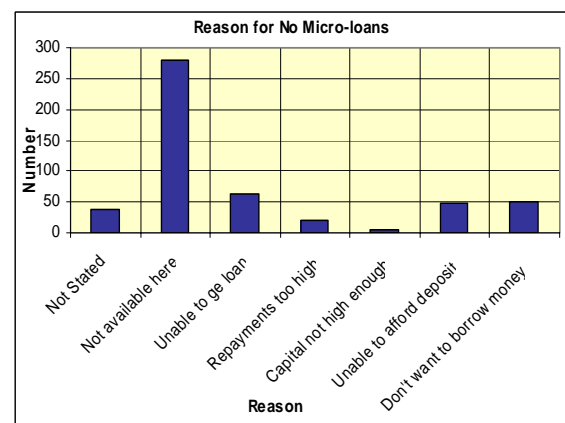
The responses to how people will be supported without social security are somewhat predictable in that the majority suggested the government, although this does not happen now, so the response suggests the community expectation rather than reality. The high response to self support reflects the previous questions about who should pay.

Insurance and micro schemes

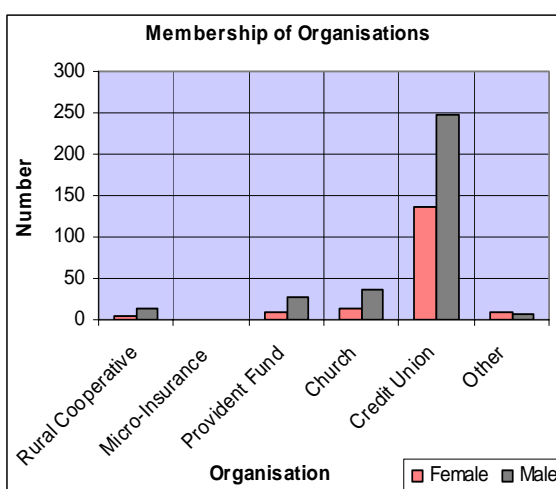
The two forms of insurance represented in these charts reflect the general low acceptance of insurance in the Solomon Islands. However micro-insurance across the country is probably as low as indicated in the chart.



In relation to micro-loans the survey found that more than 90 per cent of respondents had no micro loans and the main reason for this was that micro loans were not available in their location. Where respondents had micro loans they were fairly evenly apportioned between males and females. This may be partly due to the pro active nature of some NGO's in supporting small business loans to women. Compared to other Pacific countries a 4 per cent acceptance rate for micro loans is relatively low and this also reflects the inactive development bank in Solomon Islands that no longer offers loans for business development.



Membership of organisations can be a useful way of identifying established groups with common interests that may be able to form the nucleus of micro loans or insurance schemes. Whilst rural cooperatives have the highest membership in the survey sample it is interesting to note that almost no one in the survey sold their produce through cooperatives. A high proportion of the sample was members of credit unions which may reflect the high responses in relation to savings as a source of support during times of need. The opportunities for development of micro-insurance schemes is promising if the sample reflects the general situation in the informal economy. It is also interesting to note the membership in the provident fund, but it is unclear whether this is from previous employment or from voluntary membership.



5.3 Identification of priority needs and contributory capacity

It is evident from the initial results of the surveys of the informal economy workers that there is a high need for some form of social protection. The results confirm that health insurance is one of the highest priorities, whereas work injury and age benefits were also high priorities in one survey, old-age benefits and education loans were highest in other surveys. Whilst there is a demonstrated need for old-age benefits it seems that the premiums would be unaffordable to most informal economy workers unless there was some form of subsidy.

The social security needs of those in the informal economy differ according to their social and family status (women, children, youths, the elderly), the degree of hazard in the particular occupation (e.g. small farmers, fishermen, drivers

of mini buses), the work setting (at home, on the street, in a sweat shop), the milieu (communities more than establishments), and their ability to make regular contributions to an insurance fund.

In trying to develop appropriate mechanisms to cover the risks borne by workers in the informal economy, it is important to understand the range and types of risks that are present and how they may be prioritized. The strategy on how the informal economy workers may adapt to manage these risks must be evaluated. This would allow benefit packages and delivery systems to be designed that are fully responsive to the needs of workers in the informal economy.

In the case of the Solomon Islands survey, the initial findings suggest that there will be very limited capacity for rural and urban informal economy workers to afford about SBD. 31.25 per month for the *modal* provident fund contributions that are contributed by individual workers (SBD 78.12 per month if the employer contribution is included); in addition to premiums for other programs. Whereas formal sector workers and employers contribute 5 per cent of gross salary each for the provident fund contribution, it would be difficult for workers in the informal economy without an employee-employer relationship to contribute the average amount without any form of cost sharing or subsidy. This is demonstrated in the survey where about 45 percent of respondents indicated they could not make any contributions, 40 percent could pay SBD 200 per year and only about 10 percent could pay more than SBD 200.00 per year or the SINPF modal contribution.

However, given the lower cost of living in the rural areas and the reduced capacity of informal economy workers to make voluntary contributions, it may be possible to develop micro insurance schemes that can cover the proportionately lower costs with a micro based scheme. The most positive findings from the survey suggest that people make savings, are prepared to contribute to a social security scheme, and are aware of their needs. This combination offers promise for development of micro schemes.

5.4 Solomon Islands formal employment sector survey

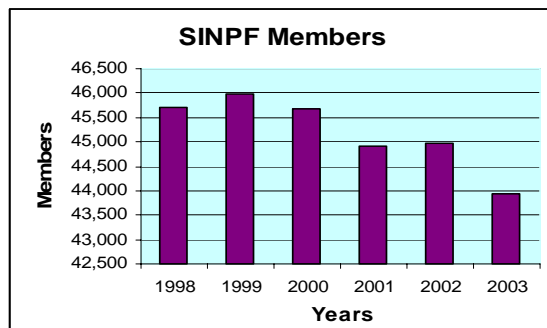
5.4.1 Background

The aim of the sample survey of workers in the formal employment sector was to obtain some indicative parameters about the workers and their priority social security needs; who provides or will provide for these basic social security needs, gaps in coverage and their potential to contribute to voluntary schemes. The survey also recorded some of the demographic and other details about the workers including their income patterns, work category, insurance and micro finance and membership of organisations.

5.4.2 Formal sector employment

The analysis for Solomon Islands shows that the most recent data for the labour market was in 1998, however this is likely to be inaccurate. SINPF membership in 2003 was about 44,000 active members. The 1998 labour market formal sector surveys showed about 24 per cent of formal workers were public servants

Figure 5.1 SINPF Membership

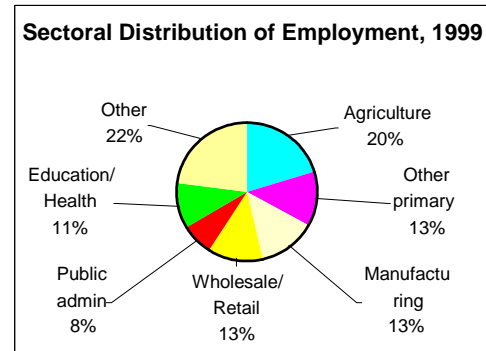


The Government Statistics Office once carried out annual surveys of formal employment, however these have not been undertaken for at least five years. The latest report is for 1998. Due to the ethnic conflict and other problems, no surveys and reports were produced since 1998. However, data from the 1999 census shows that 23 percent of the adult population were in paid employment (Figure 5.3).

Agriculture, forestry and fishing provide the most employment, followed by manufacturing, wholesale/retail and public administration. The private sector provided most employment, 70 percent in 1998. In the public sector, the central

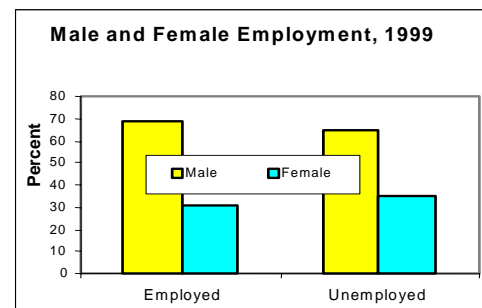
government is the largest employer, 24 percent of total formal employment in 1998.

Figure 5.2 Employment by sector



Of those in formal employment in 1999, more than two-thirds were men (Figure 5.3). Data from the annual employment surveys show that female employment increased by 6.5 percent between 1994 and 1998 and 8.4 percent for males in the same period. Total formal employment rose by 8 percent in the period 1994-1998, an average of two percent per year.

Figure 5.3 Employment and unemployment by sex



Source: 1999 Census Report

In 1999 the government carried out a redundancy exercise as part of the policy and structural reform programme. Since 1999 the ethnic conflict and subsequent law and order problems took a major toll on formal employment; however national provident fund contributions suggest that the situation may have almost returned to pre 1999 figures.

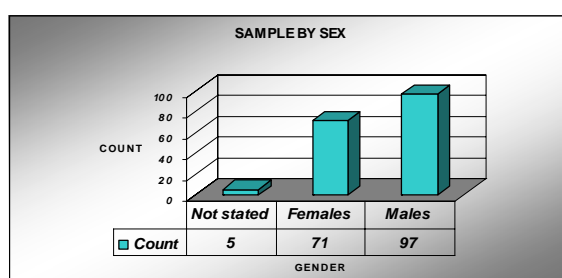
5.4.3 Key survey results

The questionnaires of the survey consist of five parts; (i) personal details, (ii) employment, (iii) education, (iv) income, and, (v) social security

needs, priorities and desire to contribute. A summary of the key findings is presented below.

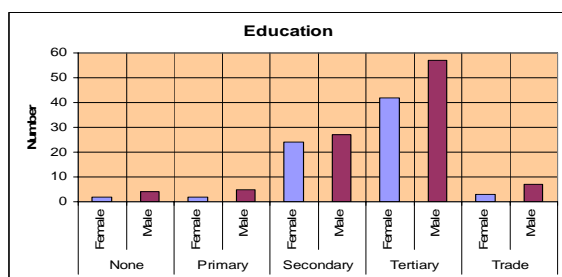
Personal details

The total sample of 173 was taken from the age groups between 15 and 60 years. The sample may have reached a loose correlation with female employment, representing 42 per cent of the sample and 58 per cent for males. The best available information suggested that in 1995 women represented 40 per cent of the formal workforce and increasing at a higher rate than for men. However the impact of the ethnic crisis is unknown.



Education

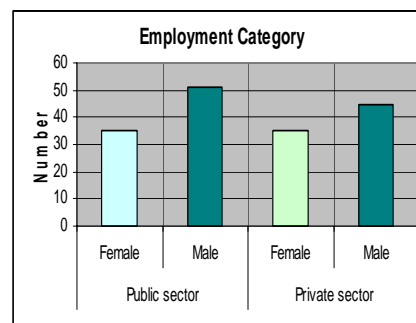
The highest education level represented by the sample was tertiary level followed by secondary level. This contrasts markedly with the informal survey where the bulk of the respondents had only primary level education and there were some cases which had no formal education. This education level may be biased by the high proportion of public sector employees in Solomon Islands where they represent around 30 per cent of the formal sector workers. The education levels may reflect the public service entrance minimum standards



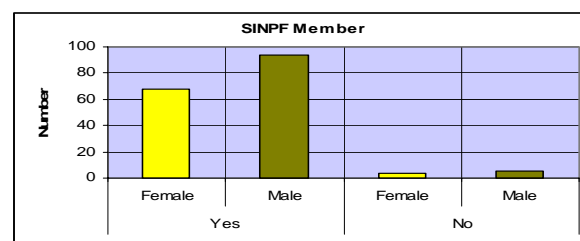
Employment type

The sample identified 58 per cent of respondents as being employed by the public sector and in the absence of accurate data this appears to be slightly higher than expected and based on the

labour market survey in 1998 where about 30 per cent of formal workers were employed by the government. The deviation could be explained by the better access to public sector institutions and diligence in voluntary surveys.



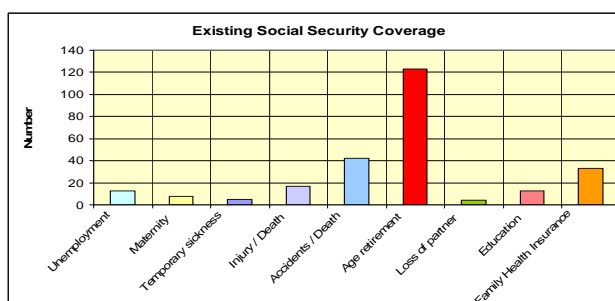
SINPF membership



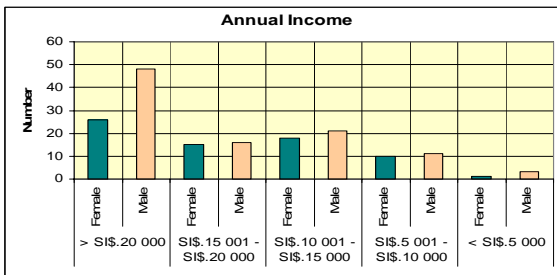
As expected the survey respondents were almost all provident fund members which suggests that compliance is relatively high and that the survey targeted the formal sector workers

Existing social security coverage

The coverage provided for age retirement by SINPF is evident in the responses and it is presumed that the small responses for other benefit coverage may be from employer or industry sponsored schemes



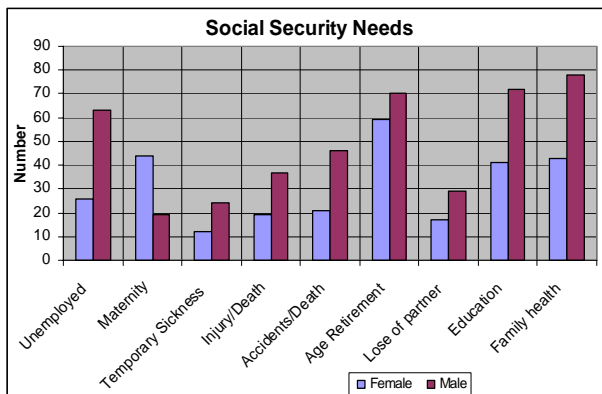
Annual income



The annual income groupings whilst suitable for the lower incomes in the informal economy produced some bunching at the higher levels where 44 per cent of the sample was in this > SBD 20,000 range. About 41 per cent of the sample was in the SBD 10,000 to SBD 20,000 range. This reflects the higher income levels of the workers in the formal employment sector.

Social security needs

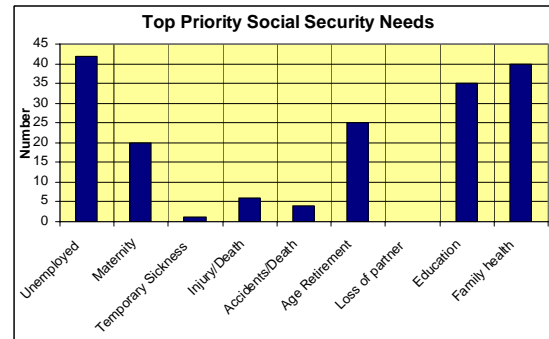
The respondents were asked to select as many needs as they considered essential and this explains why the total number of responses was more than four times the number in the sample as respondents made more than one choice. The responses from this question produced health, education age retirement, and unemployment



protection as the greatest needs in order of the greatest number of responses. This is perhaps understandable but not altogether predictable; however, in a society where there is loss of income due to unemployment and in the absence of high rates of general insurance, the result could see a dramatic change to lifestyles.

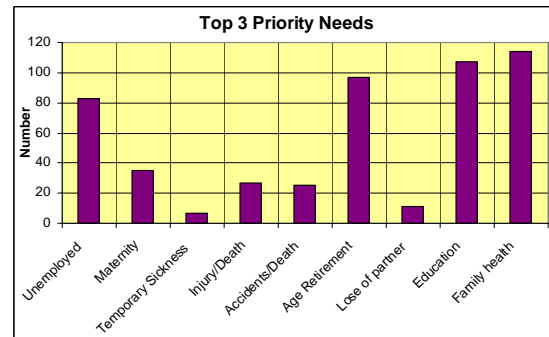
Top priority social security need

Respondents were asked to nominate their social security needs in priority order from one to eight. This outcome represents the number of instances where the need was identified as top priority. Unemployment protection was clearly the top priority followed by health insurance and education.



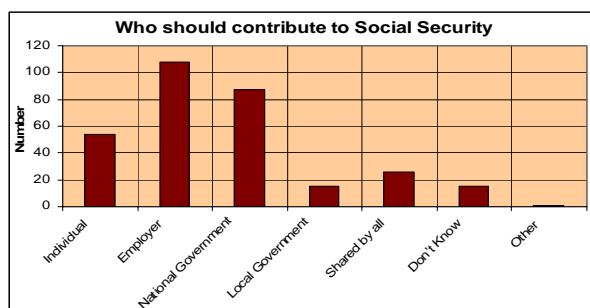
Top 3 priority needs

Given that it is very difficult to choose one priority need when only about three of the nine contingencies are covered in the formal employment sector, the top three responses were grouped to perhaps suggest a more indicative view of the needs. This survey re-inforced health, education, age/retirement and unemployment protection as clear priorities.



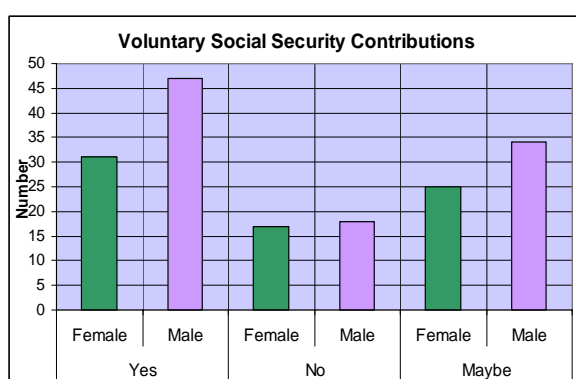
Who should contribute to social security

The responses to this question tended to reflect the status quo where, for formal sector employees the employer and individuals currently share responsibility for the existing programs. However the governments also featured significantly which is status quo for health care but may be interpreted a little more widely if additional programs are included in the consideration.



Voluntary contributor to a potential scheme

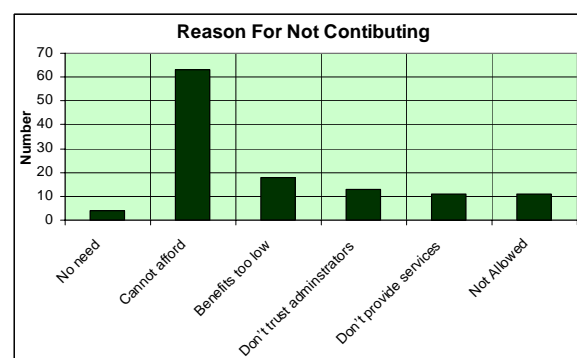
Responses to this question were very positive with around 79 per cent of respondents answering yes or maybe. Whilst it is recognized that this is very much a loaded question as people would not be able to commit fully until the product was available, it does serve as an indicator to people's understanding that contributions may be necessary to obtain better services.



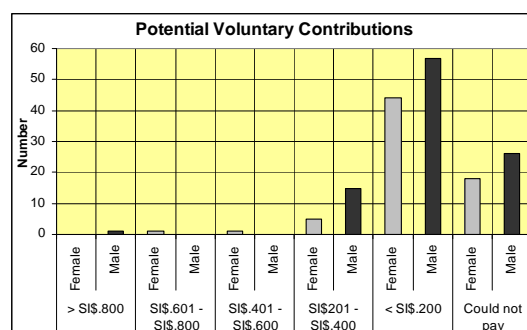
Reasons for not contributing

Respondents who answered *no* or *maybe* to the question about whether or not they would contribute to a scheme, were asked the reason for the negative response. Despite some of the negative publicity experienced by SINPF in the past the major reasons was *could not afford*. Only about 30 per cent of the responses from this sub set expressed concerns about the services.

Potential monthly contributions



These responses suggest that only about 15 per cent of people might contribute SBD > 200 per month (about USD 27) and about 60 per cent might contribute less than SBD 200. More significantly about 26 per cent responded that they could not pay. Whilst these figures may not be significant they indicate that in the absence of any proposal or program, people would offer a value on contributions, suggests that careful design of a tailored program may be able to entice people to contribute meaningful amounts that could produce useable benefits.



5.5 Comparison of formal and Informal survey findings

The table below provides a snapshot of some of the common elements from both surveys. It should be noted that the survey forms contained a different set of questions for each of the groups surveyed and some of the issues relating to land ownership, sale of goods etc were not relevant to the formal employment sector workers. The purpose of this table is to compare and contrast the different and similar needs of the two employment sectors.

Table 5.3 Comparison between informal and formal surveys

Survey Elements	Formal Employment Sector (%)	Informal Economy (%)
Sample Size	173	501
Males	58%	67%
Female	42%	33%
Education		
None	3%	12%
Primary	4%	51%
Secondary	29%	32%
Tertiary	57%	5%
Trades	6%	-
Employment Status		
Full time	82%	4%
Self Employed	3%	77%
Part-time	12%	-
Unpaid worker	-	18%
Casual worker	3%	-
Employment type		
Public Sector	52%	-
Private Sector	48%	100%
Annual Income		
0 – 5,000	2%	51%
5,001 – 10,000	12%	25%
10,001 – 15,000	23%	11%
15,001 – 20,000	18%	7%
Over 20,000	44%	5%
Top 3 Social Security Needs		
Unemployment	16%	13%
Maternity	7%	6%
Workplace Injury/Death	5%	5%
Death/Life Insurance	5%	12%
Age Retirement	19%	9%
Loss of Partner	2%	-
Education	21%	19%
Family Health Insurance	24%	19%
Housing	-	17%
Would you contribute to social security		
Yes	45%	59%
No	20%	26%
Maybe	34%	15%
Who should contribute to Social Security		
Individual	18%	33%
Employer	35%	2%
National Government	28%	50%
Local government	5%	2%
Shared by All	8%	7%
Don't Know	6%	6%
Potential Monthly Contributions		
Could not pay	26%	47%
Less than SBD 200	60%	43%
SBD 201 - 400	12%	7%
SBD 401 - 600	1%	3%
SBD 601 - 800	1%	-
More than SBD 800	1%	-

The following observations can be made on the key differences between the findings from the formal employment sector survey and the informal economy survey:

- Education levels are much higher in the formal employment sector and the significantly lower standard in the informal economy has been identified by the informal economy respondents in that they have rated education support as one of their highest priorities;
- Informal employment sector respondents rated their loss of income as a much lower risk relative to other life cycle events than predominantly urban workers, and the priority need for unemployment insurances reflected this difference, being rated the highest need among formal employment sector workers;
- The informal economy survey identified more older people, more were married and the number of children per family were all higher than in the formal employment sector survey. Whilst some of this may be explained by the random nature of the survey the findings generally fit trends in the national statistics;
- The employment status in the informal economy survey indicated that most workers were self-employed, whereas the formal employment sector survey showed that the majority of workers were full time regular employees;
- Incomes found in the informal economy survey were generally lower than those in the formal employment sector survey, both in individual incomes and family incomes, a trend supported in the national statistics;
- Existing social security coverage was almost non-existent in the informal economy, with the coverage provided by the provident fund reflecting the responses in the formal employment sector survey. Both surveys reflected the individual and family nature of existing social protection support;
- Social security needs were similar except that health care was considered the number one priority by the informal workers and unemployment protection for formal sector workers. In both surveys age/retirement and education rated highly;

- A higher proportion of informal economy workers declared that they could not pay any voluntary social insurance contributions than in the formal employment sector survey, and those that indicated they were prepared to contribute could only contribute much lower amounts than in the formal sector survey;
- Most formal employment sector workers surveyed indicated that both the individual and the employer should contribute to social insurance, whereas the informal economy survey strongly supported the government as the prime contributor followed by the individual. This may reflect the low incidence of regular employment in the rural survey; and
- One outcome of these surveys is that people both in the formal employment sector and the informal economy in Solomon Islands have an interest in social security, and would be prepared to contribute to a scheme that suits their needs and priorities. This finding provides a basis for a possible policy design in the form of pilot projects although any future proposed policy design should be tested with more detailed and targeted surveys.

5.6 Concluding remarks

There is a large unmet need for social security in the informal economy in Solomon Islands. The extension of coverage to the urban and rural informal economy will require the efforts to (i) identify the social security needs for different groups of workers, (ii) determine their social risks, (iii) develop programs based on risks, income and needs, (iv) identify group collection and support mechanisms, (v) pooling and reinsurance to promote sustainability, and the appropriate role for the private sector and governments at all levels.

Results of the informal economy and formal employment sector surveys have demonstrated that a carefully structured program may be able to attract sufficient contributors to make a contributory scheme viable in terms of numbers; however the dispersed nature of the contributors, the variability of their income, their capacity to pay and the administration issues suggest that solutions will not be simple to develop or to maintain. The extension of social security to the informal economy is feasible if one could develop a viable scheme that is flexible, affordable, sustainable, well marketed and understood.

Chapter 6 Traditional Social Protection Systems in the Pacific – Culture, Customs and Safety Nets

6.1 Executive summary

The chapter examines the traditional systems and customs in the Pacific; in particular it focuses on the existing local social support systems and the characteristics that impinge on success and sustainability of potential micro schemes in Solomon Islands. This is to assist the local stakeholders, and governments to ensure that key elements of traditional systems and customs are taken into consideration when undertaking feasibility studies into social security programs, during workshops and in the development and implementation of the national action plans. In addition to the specific country findings and recommendations, there were a number of broad patterns identified across the countries studied and also some broad recommendations which need consideration.

6.2 Broad patterns of findings

- The complex inter-relationship between the traditional and the modern expresses itself in virtually all aspects of Pacific community life, including the socio-political system, The economic system, systems of social security, gender relations, etc. Over the years islanders have selectively chosen aspects of both, which they find most convenient and workable when dealing with issues of everyday life. For instance, in the case of Samoa, traditional *matais* (chiefs) are the only ones mandated by the constitution to become parliamentarians. In Fiji and Vanuatu institutionalized systems of chiefly leadership to complement the mainstream political system exist. Many people survive by engaging in “social dualities” such as subsistence and market economy, individual entrepreneurship and communal participation, profit accumulation and redistribution etc.
- Traditional culture and customs are not seen as belonging to the past but as living and operational phenomena which serve contemporary needs. At the same time it can be used to define identity in a fast changing and increasingly complex world.
- Dramatic changes in the Pacific since independence have re-shaped the way tradition is conceptualized, operationalized and adapted. Pacific cultures do change and these changes have been due to the adaptive nature of Pacific people to the emerging challenges of globalization and modernity. Some aspects of culture such as land rights have evolved only as far as the needs dictate.
- Traditional Pacific societies are organic and integrated in the sense that no particular aspect, whether it is political leadership or socio-economic exchange, is autonomous. Instead these aspects are all intrinsically linked. For instance one’s political status depends on exchange for sustainability and legitimacy. Structure of society is linked to kinship relations and landownership is linked to status and kinship links etc. To change one means changing other aspects as well.
- The country studies show that traditional systems of social protection are closely linked to systems of political governance, socio-economic exchange, gender role, conflict resolution mechanisms etc. Traditionally, there were no institutionalised systems of social protection as such but each component of social life (exchange, governance etc.) had a role in social protection. The entire kinship system itself, referred to as *veiwekani* in Fiji or *fa’a Samoa* in Samoa or *wantok* in Vanuatu and the Solomon Islands, provides the basis or foundation of social protection which sustain individuals and groups on a daily or occasional basis.
- Traditional forms of social protection are still very much practiced today in a variety of forms as we have seen in the country studies. They play a number of important parts by subsidizing the demands of the market economy and mitigating against the impact of economic pressures on the families concerned. They also allow for circulation and reproduction of certain

traditional goods which would have otherwise disappeared. They also help to maintain social coherence at a time when families are disintegrating as a result of economic pressures. Furthermore they provide a sense of belonging and identity for people.

- Traditional forms of social protection exist in various forms such as collective reciprocity of goods and services, ceremonial exchange or even at a level of individual behavioural disposition where one is expected by custom to be generous. It can also exist at the level of cultural philosophy relating to ideals of altruism, selflessness, neighbourliness, etc. The levels of practice and philosophy reinforce each other.
- The study has found that traditional forms of social organization and norms can be successfully used to facilitate and promote micro schemes. One of the pre-requisites of the market economy is individual entrepreneurship. Many Pacific communities, because of the integrated communal life, are part of and used to, find it difficult to adapt. This has been a cause of failure in many of the income generating activities.
- In all the countries studied there have been considerable successes in the integration of traditional values such as collective participation, sharing of resources and social integration in micro schemes. The integration between modern women entrepreneurship and the traditional role of women as custodians of family welfare has been a significant factor for success. The use of the chiefly system as means of legitimization (as in Samoa) or debt repayment (as in Vanuatu) is another example. In situations where it is difficult to produce assets as collateral the use of social and cultural collateral has been seen to be appropriate and workable. Group investment based on community trust and good relations have produced positive dividends.
- It was also observed that some aspects of tradition tend to undermine the culture of savings. Some of these practices such as *fa'alavelave* in Samoa can be adjusted to

make sure that the burden on the people is not too heavy. It is possible to strike a harmonious balance between tradition and micro schemes.

6.3 Some general recommendations

- Governments in the Pacific should recognize the importance of traditional norms and practices in micro schemes. Policies relating to development and micro schemes should have specific references to this.
- Those micro schemes which have been successfully integrating the two modes must be given more support and encouragement and replicated elsewhere in other parts of the country. There should be an independent study of the reasons why this model has not worked in some cases and the mistakes identified should be rectified.
- Like in Samoa (where the government has discouraged the use of small mats for ceremonies) there should be some government guidelines (not rigid ones to allow for people to still make a choice) to ensure that certain traditional obligations are not impediments to poverty reduction.
- Because many of the micro scheme organizations operating within the countries studied work autonomously, it is important that there should be a national network set up by the government to ensure that there is a uniform national structure and process, and that these organizations (who in some cases may be competing against each other) can share experiences and lessons or success and failure, and learn from each other. This could be facilitated by creating a focal point which collects and disseminates detailed information about the micro schemes.
- Although the economic, cultural and political circumstances in the individual countries concerned are different, it is still possible to *import* success models to other countries. This may need re-adaptation but by and large there should be minimal problems.
- A training manual on tradition and income generation/business should be produced as a

guideline for those involved in group and collective projects. While people *live* their culture, it is important to *teach* or provide an analysis of aspects of their own culture which they have only taken for granted. Experience shows that this can be reassuring and empowering the outcomes of the projects

- The family (nuclear or extended, depending on the circumstances) should be the primary target beneficiaries of the micro scheme projects, although the process may involve larger groups. For instance a project may involve the whole village, the ultimate beneficiaries would be the families and how they are able to sustain themselves.

6.4 Traditional systems and customs in the Pacific: A comparative overview

6.4.1 Socio-political structures

The socio-political systems of the five countries studied had a number of important features some of which were similar to and some of which were different from each other. On the one hand there is the hierarchical and largely hereditary Samoan *matai* system and on the other hand there are the relatively egalitarian and “achieved” status of the Melanesian societies. Fiji is somewhere in the middle where both hereditary and achieved modes of socio-political rule existed side by side during the pre-colonial era until it was re-shaped by British colonialism along the lines of the hereditary and hierarchal system. One cannot really make generalizations about the “ideal” Melanesian and Polynesian systems because there are significant variations within these societies themselves. For instance in Solomon Islands, Polynesian as well as Micronesian communities exist side by side with Melanesians, and the same could be said of Fiji. Some communities in Vanuatu and Solomon Islands have hereditary modes of traditional leadership while some have egalitarian and achievement oriented political systems. In Kiribati traditional leadership sometimes takes both the achieved and inherited systems.

The traditional socio-political systems in all the societies studied are closely integrated to the economic, social and cultural processes. In particular they are very closely linked to customary systems of social protection.

6.4.2 Land

Land remains perhaps one of the most important sources of social protection in all Pacific societies. Most of the land in the countries studied is customary and communally owned. The socio-cultural systems are integrated to land in a social and spiritual sense. Thus land is inalienable from social life and vice-versa. This ensures that theoretically at least, everyone has access to land and its resources. In Solomon Islands and Vanuatu some places have matrilineal systems of landownership and some have patrilineal systems. Fiji, Samoa and Kiribati generally have patrilineal systems.

Land in all these societies is conceptualized in the context of three inter-related dimensions. The first is land as a physical entity for socio-economic sustenance. The second dimension conceives of land in relation to a complex web of social inter-connectivity which binds the land as a physical entity to socio-cultural relations. The third dimension links social relations to the spiritual and cosmological order of the ancestors. Thus land (referred to as *vanua* in Fiji and Vanuatu, *fenua*, in Samoa, *hanua* in many parts of the Solomon Islands, *abana* in Kiribati) is conceived of as more than simply a physical entity and economic commodity as in industrialized societies. It is a complex whole that embodies the physical and the social, the social and the spiritual in a holistic way. Land defines identity and cultural legitimacy in a dynamic way. However, as a result of the demand for commercial development conflict over land has emerged as a major destabilizing factor.

6.4.3 Economic exchange and reciprocity

Reciprocity refers to the exchange of goods and services within the community. This was quite common in traditional Pacific societies where there was no universally used money as medium of exchange. It was a way in which goods circulated and people’s immediate needs were satisfied. Today despite the existence of modern currency many Pacific communities, especially those who live in the villages, still practice various forms of reciprocity.

There are several types of reciprocity:

Specialized reciprocity refers to exchange of specific goods in a simultaneous fashion. Two

people may exchange goods, say a basket of yams in return for a mat, at the same time. Someone may need yams to hold a birthday feast for a child and the other person may need a mat for a new kitchen. The exchange satisfies both parties. Usually the social values of the exchanged goods are perceived as similar.

Generalized reciprocity refers to exchange of goods without any specific value or time bound in terms of *repayment*. There is a general understanding that the good deeds will soon be reciprocated when the need arises. *Kerekere* as in Fiji is a form of generalized reciprocity.

Imbalanced reciprocity is when goods exchanged are of different social values and sometimes, this may lead to conflict.

Redistributive reciprocity refers to collective exchange of goods through ceremonial processes such as *solevu*, (as in Fiji) death ceremonies, marriages etc. Kin-groups would collect goods such as coconut oil, mats, kerosene, pigs, cattle, taro etc. and eventually redistribute them amongst themselves at the end of the occasion. Reciprocity is an important social safety net mechanism in these ways:

- It ensures that various social needs of families are met without using money to buy things;
- It ensures that resources flow within a particular kin-group or locality thus helping to maintain self-sufficiency. It makes sure that perishable and non-perishable goods are always in circulation;
- It encourages mutuality in socio-cultural relations as a condition for intra-group support and social coherence.

6.4.4 Tradition and change

Traditional systems in the Pacific have been going through various degrees of change over the years as a result of modernization and industrialisation. Some communities have been changing faster than others. These changes have taken complex dimensions, rather than just a unilinear path towards modernization as normally assumed. For instance in some cases one finds modern culture, institutions and processes dominating traditional modes of life. In other cases, the modern and the traditional shape each

other, consequently form a new synthesis. Still, in some cases there are deliberate moves towards reviving and institutionalizing traditional culture as a means of engaging with the modern world. These complex syncretic processes continue to shape the trajectory of social and cultural change in the Pacific.

Nevertheless despite these changes there are certain customary and traditional modes of culture which have survived over the ages and continue to form the basis of contemporary life. While there are some general similarities between the Pacific countries studied, there are also a lot of differences. It is thus not possible to make generalizations.

6.5 Country study: Solomon Islands

6.5.1 Brief history

Solomon Islands is part of the greater Austronesian group of people who came from South East Asia through New Guinea and into the Pacific. It was probably settled about 4-5,000 years ago well before Fiji and Vanuatu. The first European to sight the islands was Spanish explorer, Álvaro de Mendeña de Neira, in 1568 but he failed to colonize the islands for Spain. Other sailors arrived afterwards and later European settlers and missionaries arrived throughout the 18th and 19th century. The German New Guinea Company established control over the northern Solomon Islands in 1885 while the southern islands were placed under a British protectorate in 1893 and later in 1898 the eastern islands were added to it.

In a deal with Britain in 1900, Germany transferred its possessions (except Bougainville and Buka, now part of Papua New Guinea) to Great Britain in return for British withdrawal from Samoa. After World War I, Bougainville and Buka were taken over by Australia under the League of Nations mandate. Choiseul, New Georgia, Ysabel, and Guadalcanal were occupied by the Japanese in 1942 during World War II and were later liberated by the Americans after bitter fighting 1943–44.

After years of British rule Solomon Islands became self-governing in 1976 and independent in 1978. The government is based on the British parliamentary system with a governor-general, representing the crown as head of state. The government consists of a cabinet chosen from an

elected unicameral parliament. As a result of years of unequal development and poor governance, tension between the people of Malaita and Guadalcanal developed and erupted in 1999. This intensified in 2000, culminating in a coup which saw the overthrow of the government and the arrest of the Prime Minister, Bartholomew Ulufa'alu who was forced to resign and was succeeded by Mannasseh Sogavare.

Following the December 2001 election, Sir Allan Kemakeza became prime minister. The civil war between the warring groups led to the death of hundreds of people and the destruction of property and the economy. Government money was used by warring criminal groups for compensation and the government went bankrupt. In July 2003 the Regional Assistance Mission to the Solomon Islands (RAMSI) led by Australia intervened to maintain law and order and help rebuild the state structure and economy. Many members of the armed militia were disarmed and many were imprisoned. The next election is due in 2006.

6.6 Land tenure

About 90 per cent of Solomon Islands land is customary land. Like other Melanesian societies such as Vanuatu and Papua New Guinea, the Solomon Islands society is culturally heterogeneous - in other words, there are diverse languages and other cultural variations between different localities. The most basic social unit is the nuclear family and a number of these make up a village. The village is the centre of social and economic life and is organized around either matrilineal or patrilineal lineage. There are differences in the nature of lineage from locality to locality. For instance some communities such as Malaita have patrilineal lineage while some like in Guadalcanal, Chisel and Isabel have matrilineal lineage.

For matrilineal communities, titles to land are usually passed down through the female line while for patrilineal communities it is through the male line. In matrilineal communities, women are associated with land and tribal sustainability and for this reason are usually accorded relative social power, but limited to land matters only. However, this does not directly transfer to political power. Political power by and large still resides with the men. Although a community may be matrilineal in terms of inheritance of land titles, it is still very

much patriarchal in terms of political power and decision making.

Title to land was vested in a group and was usually inalienable. The landowning units consisted of dispersed hamlets rather than compact villages. A member of the group had rights to the land by virtue of group membership and this may be passed on to the larger group in cases where a family died out. While there were local variations of land tenure, there were common characteristics such as the central role of the *big man*. In some cases control over land is a precondition for attaining *big man* status. Local competition over allegiance to the *big man* shaped local politics and also had implications on land rights. The clan itself does not have control over land but segments within clans. Land can be used as gift or as compensation as part of conflict resolution.

As a result of recent logging and mining, disputes over land have increased especially when many land boundaries are not registered and ownership not codified. In Guadalcanal where many Malaitans have settled over the years, disputes over land have contributed to political tension and even war.

6.7 Status of women

Gender division of labour revolves around the perceived and inherited place within the traditional hierarchy. Women are considered sources of material and social livelihood and thus carry out most of the tasks relating to basic sustenance such as gardening, fishing and fetching firewood, while men are involved in such things as hunting and collecting coconuts. In other parts of the Solomon Islands women tend to carry out lighter tasks when compared to men who carry out more strenuous tasks.

In most Solomon Islands communities men dominate decision-making. Even in matrilineal groups, senior males still decide on matters pertaining to land rights and transfer, and women merely facilitate and legitimize the process. The position of *big man* is always reserved for men and the wife of the *big man* usually acquires the highest status within the community.

6.8 Socio-political structure

Some communities are organized around egalitarian principles where the *big man* achieves

status through ability to mobilize people, power to accumulate wealth, appealing personality and charisma. Other communities have more hierarchical and inherited chiefly systems as in Polynesia. Some of these communities are Shortlands, Isabel and parts of South Malaita. Generally, village chiefs are representatives of landowning units and are expected to be the repository of *traditional wisdom* in the form of knowledge of genealogy and custom. The chiefs are considered custodians of social order and social security and are expected to deal with conflict when they arise. Often the chief's ability to influence is based on his personal qualities, as one respondent stated: *People listen to 'good' chiefs and ignore 'bad' ones*. There was concern by some local observers that given that some chiefs are *self-appointed* raises questions about their legitimacy. Sometimes chiefs may use their traditional power to access economic resources. Involvement of the police in village disputes is only resorted to if the chiefs fail to restore order. Today the power of the chief to carry this out has been dramatically eroded.

Transfer of power within a *big man* system is determined by one's personal ability and sometimes succession is through the son if the son is able to prove himself. In addition he needs the support of members of the group to provide legitimacy. Those who are perceived to be achievers are referred to as *men with a name* and they are generally admired by men and women. The right man must carry out a series of acts considered noble and beneficial to the community before he attains the status. The *big man* must show humility, respect for seniority, have ability to lead the people, have access to wealth, have religious power or magic, a great warrior or hunter, good in oratory and must be matured in character. Thus instead of imposing his power on others, the *big man* must show qualities of kindness, trustworthiness, generosity and honesty to influence people.

Thus the *big man* position is open to any man who can prove his worth and is not based on hereditary rank. This is in contrast to the hereditary chiefly system practiced in some parts of the Solomon Islands. In the chiefly system authority is more institutionalized and is usually passed down through the most senior male in the family. The chief and his family normally have certain privileges associated with the position. Because the chief does not attain his status through achievement the position at times is seen

as symbolic whose only role is to unite and maintain stability. As part of his role the chief at times organizes feasts and other social activities. Individuals and extended families carry out their daily socio-economic activities without reliance on the chiefs who themselves need to work to sustain his family.

The local kinship groupings are usually the basic form of political organization. There are various levels of political organizations which are associated with various levels of socio-political operations. The biggest grouping is the tribe which has several clans and within each clan are a number of lineages which consists of several families.

In a tribal set up, population is generally bigger with a number of clan units under a leader. Each clan has a leader, the most senior of which would be the tribal leader. Usually a clan consists of a number of exogamous patrilineal lineages. Each member of the clan lives in the same locality. Members of the same clan live and consider themselves as being of 'one people' or 'one base'. Clan solidarity is expected in activities such as death, gardening, warfare, dispute resolution, building a chief's house and marriage. A chief normally heads a clan.

The lineages within a clan consist of a small group of men, women and children who can trace their descent from a common and known ancestry. Members of the same lineage consider each other *true* relatives and they often refer to themselves as *one house, one vine, one people* and *one root*. The lineage is usually headed by the most senior male within the group. The leader is seen as the custodian over the group's properties such as land and the sea. Usually a lineage would make up the population of a hamlet. Each lineage consists of families headed by a husband.

6.9 Traditional forms of conflict resolution

The traditional approach requires dialogue and engagement at different levels between the two parties before coming to an eventual consensus. Part of the consensus relates to agreement over compensation to be paid by both parties. This takes place in a ceremony of reconciliation known in certain parts of Malaita as *tafuliai*. Compensation could be in the form of pigs, shell money, sweet potato, yam, cane banana and taro.

The amount of compensation paid usually depends on the severity and magnitude of the conflict. Compensation has a number of important roles in the community:

- It is a form of reciprocity where goods are exchanged in a purely socio-economic manner;
- At another level, it is a form of conflict resolution to mend the fractures in relationship between the two groups;
- It acts as an agent for social cohesion and stability;
- It is provision for reparation for the damages done; and
- The process helps to restore good relations and re-link kinship ties needed for perpetuation of the community.

The use of oaths and ordeals were two common peaceful methods used to settle disputes in the past. Both methods involved community trust in the process and appeals to supernatural power. An oath involves the process of appealing to the gods to bear witness to the truth of one's testimony. Ordeal on the other hand involves determining one's guilt by subjecting the person to various tests believed to be within supernatural control. Both these processes have the function of reinforcing particular cultural values such as trustworthiness, faithfulness and honesty. Its aim is to make people tell the truth to ensure that reconciliation and compensation can be carried out properly. During the early days, failure to achieve a peaceful settlement led to violent resolution in the form of wars.

6.10 Traditional forms of social protection

There are a number of traditional forms of social protection mechanisms which are used throughout the Solomon Islands, although there are regional variations.

6.10.1 Reciprocity

Reciprocity is fundamental to the socio-economic and cultural sustenance of the local communities. In principle it involves the exchange of goods and services between kinship groups or individuals and this takes various forms, depending on the context. In small scale subsistence economies, reciprocity provides a means of satisfying basic needs through redistribution, disposal of surplus, consolidation of social cohesion and

sustainability of local culture. By and large it ensures that the collective interests of the community are catered for. Certain forms of reciprocity involve routine day to day exchange of goods and services while some involve more elaborate ceremonies.

Barter exchange: This involves direct exchange of goods, usually between people from the interior (people of the mountain) and coastal people (people of the sea).

Intra-group labour exchange: This is similar to the Fijian notion of *solesolevaki*. Families take turns to have their gardens made or houses built by the other members of the village. Labour is collectively mobilized and used to service family needs.

Borrowing: This involves people asking relatives for food and other goods necessary for daily sustenance. There is expectation that this will be reciprocated later when the need arises.

Use of traditional money: In place of cash, traditional shell money is still used as a means of exchange in a number of cases. It can be used as a form of *bride wealth*. The term *bride price* which is commonly used, assumes that the money is for the purpose of *buying* the girl when in the broader context there is a process of reciprocity with deeper sociological significance taking place. The shell money which is used for the exchange is collected from the relatives of the boy and presented to the relatives of the girl. In exchange the relatives of the girl present food which is distributed to the relatives of the boy. The process involves ceremonial exchange not only of goods but also of commitment to mutual support between the two groups and consolidation of kinship ties. Support may be manifested in the form of sharing land when the need arises. Inter-tribal tribal marriage becomes a bonding ritual which in the early days would mean mutual protection of each other from rival groups during times of disputes and even war.

Shell money is also used as a medium of gift exchange during reconciliation ceremonies. It has a utilitarian purpose which has allowed it survive since time immemorial until today. Certain localities along the coastal areas specialize in shell money making. These are sold either to *middlemen* who are able to make surplus through retailing or are directly marketed to the

consumers. Some market stalls in Honiara specialize in selling shell money.

In social protection terms, shell money provides a convenient alternative for modern cash. It has a multiple exchange value. When required it can be used as object for bride wealth, medium for gift exchange during reconciliation or it can be valued in modern monetary terms for the purpose of cash exchange. Accumulation of shell money translates into socio-cultural as well as socio-economic wealth.

6.10.2 Wantok system

The term *wantok* (literally means same language) refers to networks of kinship links beginning with the nuclear family and radiating outwards. It is a dynamic and a relative process which over time has come to symbolize common primordial identity. There are different layers of *wantoks* from those of close blood relations and extends to those of the same village, clan, tribe, province and even the same country. Solomon Islanders outside their country would refer to each other as *wantoks*, even if they come from different tribes and provinces back at home. At the outermost extent, people of Melanesian origin (Papua New Guinea, Solomon Islands, New Caledonian Kanaks, Vanuatu and sometimes Fiji) refer to each other as *wantoks* because they are assumed to share certain common characteristics. There are four basic aspects of *wantokism*:

- There is an assumption of common heritage and common primordial origin,
- This element of commonality must be the basis for consolidation of friendship and unity,
- In times of need and crisis one must be prepared to help, and
- The social relations between groups or individuals must be life-long and it is a taboo to break it.

The notion of *wantok* finds political manifestation in the Melanesia Spearhead Group, a political bloc set up by the Melanesian countries to mobilize inter-state solidarity and address common socio-economic and political problems.

Paradoxically, while the notion of *wantok* can be utilized for the purpose of unity and helping each other it can also lead to fragmentation, especially when it is used to justify ideology for inter-group mobilization as in the recent crisis. The

Guadalcanal people mobilized as *wantoks* against the Malaitans who also mobilized as separate *wantoks*. Nevertheless the National Peace Council in its national reconciliation program has been trying to promote the idea that all Solomon Islanders are *wantoks* and therefore must discard their grievances and differences and come together again as one.

6.10.3 Land rights

Easy access to the communally owned land is a basic provision for traditional social security. All members of the lineage have rights to land. This ensures equal access to resources and a guarantee against competition over ownership.

6.11 Social and political changes

The pace of change in the Solomon Islands differs considerably from place to place. Social change in the rural areas has been much slower than urban areas like Honiara the capital. The major agents for change include colonial assimilation, World War II, migration, urbanization, globalization and conflict.

As a British protectorate, the Solomon Islands was indirectly ruled from Fiji under the Commissioner for South West Pacific (who was Fiji's Governor). Thus unlike Fiji, the Solomon Islands did not go through the process of *total* colonial assimilation and transformation which involved restructuring of its traditional political structure and socio-cultural dynamics. One of the most significant colonial policies was that customary landownership was to be preserved. Many isolated rural communities remained insulated from externally induced changes. Traditional customary practices are still practiced in most parts of Solomon Islands.

The Second World War brought about a lot of changes such as exposure to European material goods, consciousness about the Solomon Islanders' place in the bigger world, labour mobility and infrastructural development. After the war some of these factors became influential in shaping the socio-economic development and political stability of the country. For instance, exposure to European material goods contributed to the *cargo cult* movement, an economic and socio-cultural attempt to create an autonomous community outside the ambit of state control. Internal migration, especially to Honiara later put

pressure on landownership and community relations leading to conflict later.

The ethnic conflict from 1998 to 2001 re-shaped the political and economic configuration of Solomon Islands in a dramatic way. The political conflict led to the collapse of the state institutions such as parliament, cabinet, judiciary and police. The formal economy drastically declined and was on the verge of collapse, but what sustained people's livelihood was small scale community production. The conflict also led to large-scale abuse of the traditional system of compensation. Rival groups demanded compensation payment from the government and the government had to submit to these demands under a lot of duress.

The conflict led to the break-up of community and family values as young men no longer listened to their elders and chiefs. During the crisis, most of the transgressions were committed within communities and this contributed to weakening of social bond, diminishing trust, heightened suspicion and lack of respect and trust. One of the concerns raised by participants during discussions was the diminishing authority of chiefs and the loosening of social cohesion. The conflict gave young men a sense of independence and adventure and felt that they were no longer bound by traditional norms. The conflict resolution measures by the NPC are geared towards mending fractured relationships and restoring trust and goodwill. Imposing jail sentences may be effective as punishment but it does not mend the rifts within the community.

The political process and dynamics at the national level continues to impact on development at the local level. For instance each politician has SBD 600,000 at his/her disposal in the form of a Rural Constituency Development Fund (RCDF) which can be used for *any purpose* deemed appropriate for development. While this *slush fund* is the only financial source which directly reaches the grassroots, it is often subject to political manipulation by politicians and consequently makes people more dependent on political handouts in return for votes. This creates a new power configuration in the community where the politician becomes a *big man*, overshadowing other traditionally acknowledged *big men*. Members of parliament spend around 80 per cent of their time dealing with the slush fund and about 90 per cent of election issues revolve around it.

The RCDF has a lot of potential to fund public facilities which the banks usually refuse to fund. However, the lack of proper accountability and monitoring mechanisms makes it subject to all forms of manipulation. Recently, provincial governments and city councils have put forward claims to *ward grant*, a similar scheme to slush fund.

One of the most pronounced changes is the increase in poverty and related social problems. Over the years there has been an increase in the number of urban villages, more and more people live in dumps and the level of prostitution has risen tremendously. The deployment of RAMSI has encouraged prostitution in a significant way. The urban villages have more options in terms of both cash and subsistence production compared to the rural villages. An average worker receives about SBD 150.00 (USD 25.00) a week to feed a family of 4. The most *developed* part of Solomon Islands is the Western Province because it has more industries such as copra and cocoa plantations, more forests for logging and also went through an earlier process of social change through the Methodist Church.

6.12 Government policy and tradition

The government of Solomon Islands has been largely isolated from the rural communities and as a result it has not been able to engage with them in an effective way. This is partly due to the undeveloped infrastructure, geographically scattered communities, lack of finance and poor development strategies. Social and cultural life in Solomon Islands revolves around local lineage and communities and these communities act as the living repository for traditional *kastom*.

The state has very little power to effectively address local grievances and tensions and these are usually left to the communities themselves to address using traditional methods of reconciliation. The minimal presence of the state means that local communities have the ultimate responsibility to address conflict and sustain their daily welfare. When political conflict intensified from 1998 to 2001, the government had no mechanism in place to facilitate a peace deal and the state was literally paralysed.

There is no economic policy of the government which explicitly incorporates traditional customs as part of national development. The main reason is that it is assumed that traditional custom is an

integral part of everyday Solomon Island life and thus there is no need to legislate or formalize it. Important matters such as landownership, systems of farming and fishing, community conflict resolution, reciprocity etc. are by and large still based on age-old customs and are being encouraged to remain this way.

In the area of conflict resolution, the government is encouraging the use of customary means of peace-building through the National Peace Council and Ministry of National Reconciliation. These two organizations facilitate local community initiatives using traditional approaches to peace building. The Solomon Islands National Provident Fund does recognize the importance of traditional social protection systems but has no official policy regarding its potential use. Even the education curriculum of the Ministry of Education does not provide a comprehensive framework for cultural education.

6.13 Micro schemes and tradition.

6.13.1 Rural projects

If not well conceived and implemented, development initiatives can create new conflict or resurrect and exacerbate old conflict. For instance, gold mining on *Goldridge*, logging operations and palm oil farming led to conflict over land claims by rival landowners. In the case of gold mining, the landowners took part in a traditional reconciliation process and reached an agreement about formation of a landowners association and the percentage of royalty to go to each tribe. Usually 1.5 per cent of the royalties go to the landowners and 1.5 per cent to the provincial government. How the money is distributed within the clan usually depends on one's ranking and seniority. Some of the other benefits of the mining industry, when it was in operation, included school buildings, infrastructures, rental payment, compensation, employment and scholarships.

No agreement between landowners has taken place within the logging and oil palm industries. In cases where there is dispute over land, traditional means of reconciliation are firstly used and if this fails, then the cases go to the courts.

6.13.2 EU micro projects program

The European Union (EU) runs a Micro Project Program (MPP) which has thus far been

successful. The EUs two strategies include, firstly, social services and secondly, income generating projects. The objectives of the program are:

- To reduce poverty, social inequality and dependence on government intervention,
- To implement community self-help schemes in both rural and urban sectors in the areas of education, health, environment, youth and culture, women's groups, employment and income generating projects, construction or rehabilitation of basic infrastructures,
- To assist community based organizations (CBOs) and NGOs in project cycle management for better impact and professionalism,
- Institutional strengthening of NGO sector, and
- Implementation of cost-effective and sustainable projects.

These are targeted towards nuclear and extended families and money is disbursed depending on the need. Usually the EU merely responds to initiatives from the people rather than imposing projects. Women tend to be the most organized groups with the most viable project proposals and existing training programs. In comparison, men tend to be more ad hoc in approach and lack the organizational coherence and planning required, thus most of their project proposals have been rejected.

One of the strengths of the EU approach is that it uses existing socio-cultural structures such as the chiefly system to establish legitimacy and acceptance in the villages, the traditionally important socio-economic role of the women to ensure effective implementation of family based projects and collective organization as a means of enhancing communal support. Also it encourages people to pay their contribution in kind if cash is not available. For instance, for school buildings, local stakeholders maybe asked to provide local timber and other material as part of their 25 per cent contribution. Paying in kind is encouraged to ensure greater community participation.

The EU project not only targets basic needs, beyond that it attempts to raise people's living standard through provision of savings and generation of capital for further investment. It works closely with the government, other aid

donors and NGOs. However, because some donors only require 5-10 per cent contribution, some clients are tempted to shift allegiance thus creating a situation of conflict. There is also the problem of some people emulating some success stories by setting up businesses which more successful ones have done. This tended to lead to over supply, thus destroying the market.

6.13.3 West Areare Rokotanikeni Association (WARA)

WARA is based in Malaita and is a successful pilot project by the EU under its MPP. The objectives of WARA are to provide information, communication and strengthen linkages between the rural and urban women of West Areare; carry out training for women; develop women's potential in business; build up capacity for women participation in decision making; encourage unity amongst women; uphold traditional values of West Areare and to work in partnership with existing institutions such as churches and chiefs.

One of the reasons for the success of WARA is its ability to engage modern developmental concerns with traditional customs. In the preamble of its constitution it commits itself to *acknowledge the worthy customs and traditional wisdom of our people-which have come down to us from generation to generation and pledge ourselves to guard and pass on to those who come after us our noble traditions.*²⁵ Existing traditional values and traditional chiefly systems are not seen as barriers but as vehicles for enhancing project success. Another factor is that it provides empowerment for women who traditionally form the socio-economic lifeline of the community. There is often direct association between women's empowerment and efficiency in decision-making and socio-economic production. Furthermore, emphasis on collective lending provides the social cushion for repayment. In other words, the fact that the women all knew each other, have a common aim and philosophy as expressed in the WARA constitution and support each other means that everyone is obliged to maintain the reputation of their respective zones (each zone competes for success) and ultimately the reputation of WARA. This is a socio-psychological incentive for prompt repayment.

WARAs operation covers 7 zones and 40 women organizations and to date 64 individual projects ranging from SBD 100 - SBD 700 have been funded. The project operates on a revolving fund and the timeframe given to repay the loan is 4 months i.e. 1 month grace period and 3 months repayment period. The repayment rate in some of the zones is quite high. For instance in zone 1, all 8 loans have been repaid. The WARA projects include running canteens, poultry farms and buying and selling of commodities like copra, kerosene, second hand clothing, rice, flour, tobacco, nails, cake, pens, sweets and shirts.

The increasing success of WARA would also symbolize the gradual transformation of gender power relations where women's social status has been accorded a certain degree of respectability unheard of before.

6.13.4 Solomon Islands Development Trust (SIDT)

The SIDT, the largest NGO in the Solomon Islands (apart from the church) and was set up in 1982 based on the philosophy that the village provides limitless potential and opportunities. It is where one's orientation in life begins, it is what shapes one's identity and where wealth can be created.

SIDTs efforts have been geared towards encouraging village production using affordable, sustainable and appropriate methods. Its success has been due to three factors. Firstly, is its ability to use the traditional socio-political and socio-economic structure, networks and norms as a means of engaging villagers. There is a conscious attempt to recapture and encapsulate traditional custom to facilitate the community projects. Secondly, it was based on the *think small* and *think local* concepts, instead of engaging in BTO (Big Time Operations). The village was the centre of social gravity, thinking and action, instead of the province or state. This enabled villagers to mobilize local resources for maximum use. Thirdly, the projects were targeted at empowering villagers. At a time when villagers were predisposed towards *staka* (cash money), SIDTs philosophy helped to reshape their thinking, to look and harness the potential within as a form of empowerment, as expressed by the SIDT newspaper: "Empowerment is a word that simply means moving from *can't* to *can*...empowerment tries to help people master a skill, a technique, a way of thinking to better

²⁵ "West AreAre Rokotanikeni Association Constitution", p1.

themselves and their community.”²⁶ Instilling a sense of ownership and empowerment in the process of village production and development is a socio-cultural asset which has been sustaining the SIDT for more than two decades. The fourth reason for the success was that the donors allowed SIDT to pursue its programs with minimal intervention at the *thinking*, implementation and monitoring stages.

6.13.5 Cooperative movement

The cooperative movement did not perform well because of what many referred to as *poor management*. But it appears that the story is much deeper than this. Cooperatives operated at a very formal level, although it allowed for collective participation and shares. They operated the way they operated in other countries and there was little consideration of the local cultural realities. People were expected to conform to the demands of the cooperative system rather than the cooperative adapting to the local cultural system. This was its major downfall.

6.13.6 Sup-sup garden

In Honiara there are lots allocated for vegetable farming for families. These are to provide nutritious food for poor families. These are often run by families.

6.13.7 Conflict resolution as social protection

The Solomon Islands National Peace Council (NPC) has been actively involved in training for conflict mediation for community leaders as part of its community capacity building program, focusing largely on the principles of mediation and how they can be incorporated into the traditional social setting. It is being facilitated by the University of Queensland’s Centre for Peace and Conflict Studies. The current training schedule involves two participants from Guadalcanal, one from Western Province, one from Malaita and five from other provinces. While the training is based on the courtroom legal mediation framework, it’s applicability can be extended to community conflict mediation.

However, there are limitations to this approach as it is based on the involvement of a third party, in

contrast to the two party negotiations as in the traditional conciliation approach.

Nevertheless the NPC training program is an attempt to introduce new and innovative means of mediation to be used together with traditional conciliation methods, without the former undermining the latter. This new approach was inspired by the fact that in many places, as a result of the conflict, systems of traditional reconciliation have broken down as simmering tensions continue. Part of the process by the NPC is to empower chiefs to enable them to re-establish traditional order in a situation of socio-cultural breakdown.

There are two steps in this approach. The first involves *bridging* the gap between the two parties. This involves discussions and social engagement at various levels to ensure that there is general understanding and consensus on the purpose of the peace ceremony. The second stage involves reconciliation proper. This is when the two sides engage in presentation and acceptance of apologies and gifts. In the Weather Coast area, where there were serious cases of unrest during the political crisis, the use of traditional reconciliation was a way of addressing the ongoing political tension.

The NPC reports to the Ministry of Reconciliation and Peace and it advises the government and RAMSI. One of its tasks is to identify traditional forms of governance and devise civic education programs to revive traditional governance.

6.14 Recommendations on micro scheme and tradition

- Micro schemes should be targeted at localized lineage groups because of the level of closeness of the group which means that the benefits would be directly felt by members.
- Women have proven to be the most reliable in terms of income generating micro schemes. There is also a lot of support for women entrepreneurs within the community as shown by the success of the Areare Women’s group.
- Excessive social obligations have the potential to threaten the success of micro

²⁶ SIDT. 2003. *New Link*. Volume 2, Issue 53, p 4.

schemes. It is important to keep a balance between what is given as gift and savings.

- Because of the recent political upheaval and the ongoing attempt at national reconciliation, it is important that micro schemes should be linked to peace-building, either directly or indirectly.

6.14.1 Summary of findings and major recommendations

The study has shown that traditional culture still plays a significant role in the daily lives of Pacific people. There is a complex process taking place where on one hand there is the influence of modernity and all its manifestations and on the other hand is the desire of Pacific people to maintain aspects of their traditional culture as a way of reinforcing their group and individual identity. Traditional forms of social protection are linked to the broader processes of socio-economic exchange and socio-political stability. This study has identified a number of significant aspects of tradition and social protection from the five countries studied which deserve attention.

6.14.2 Key findings

The complex inter-relationship between traditional and the modern expresses itself in virtually all aspects of Pacific community life, including the socio-political system, economic system, systems of social security, gender relations, etc. Over the years islanders have selectively chosen aspects of both which they find most convenient and workable when dealing with issues of everyday life. For instance, in the case of Samoa, traditional *matais* (chiefs) are the only ones mandated by the constitution to become parliamentarians. In Fiji and Vanuatu institutionalized systems of chiefly leadership to complement the mainstream political system exist. Many people survive by engaging in *social dualities* such as subsistence and market economies, individual entrepreneurship and communal participation, profit maximisation and redistribution etc.

- Traditional culture and customs are not seen as belonging to the past but as living and operational phenomena which serve contemporary needs. At the same time it can be used to define identity in a fast changing and increasingly complex world.

- Dramatic changes in the Pacific since independence have re-shaped the way tradition is conceptualized, operationalized and adapted. Pacific cultures do change and these changes have been due to the adaptive nature of Pacific people to the emerging challenges of globalization and modernity. Some aspects of culture such as land rights have evolved only as far as the needs dictate.

- Traditional Pacific societies are organic and integrated in the sense that no particular aspect, whether it is political leadership or socio-economic exchange, is autonomous. Instead these aspects are all intrinsically linked. For instance one's political status depends on exchange for sustainability and legitimacy. Structure of society is linked to kinship relations and landownership is linked to status and kinship links etc. To change one means changing other aspects as well.

- The country studies show that traditional systems of social security are closely linked to systems of political governance, socio-economic exchange, gender role, conflict resolution mechanisms etc. Traditionally, there were no institutionalized systems of social protection as such but each component of social life (exchange, governance etc.) had a role in social protection. The entire kinship system itself, whether referred to as *veiwekani* in Fiji or *fa'a Samoa* in Samoa or *wantok* in Vanuatu and Solomon Islands provide the foundation of social protection which sustain individuals and groups on a daily or occasional basis.

- Traditional forms of social protection are still very much practiced today in a variety of forms as we have seen in the country studies. They play a number of important parts by subsidizing the demands of the market economy and cushioning the impact of economic pressures on the families concerned. They also allow for circulation and reproduction of certain traditional goods which would have otherwise disappeared. They also help to maintain social coherence at a time when families are disintegrating as a result of economic pressures. Furthermore, they provide a sense of belonging and identity for people.
- Traditional forms of social protection exist in various forms such as collective reciprocity of goods and services, ceremonial exchange,

or even at a level of individual behavioural disposition where one is expected by custom to be generous. It can also exist at the level of cultural philosophy relating to ideals of altruism, selflessness, neighbourliness, etc. The levels of practice and philosophy reinforce each other.

- The study has found that traditional forms of social organization and norms can be successfully used to facilitate and promote micro schemes. One of the demands of the market economy is individual entrepreneurship. Many Pacific communities, because of the integrated communal life they are part of and used to, find it difficult to adapt. This has been a cause of failure in many of the income generating activities.
- In all the countries studied there have been considerable successes in the integration of traditional values such as collective participation, sharing of resources and social integration in micro schemes. The integration between modern female entrepreneurship and the traditional role of women as custodians of family welfare has been a significant factor for success. The use of the chiefly system as means of legitimization (as in Samoa) or debt repayment (as in Vanuatu) is another example. In situations where it is difficult to produce assets as collateral the use of social and cultural collateral has been seen to be appropriate and workable. Group investment based on community trust and good relations have produced positive dividends.
- It was also observed that some aspects of tradition tend to undermine the culture of savings. Some of these practices such as *fa'alavelave* in Samoa can be adjusted to make sure that the burden on the people is not too heavy. It is possible to strike a harmonious balance between tradition and micro schemes.
- Like in Samoa (where the government has discouraged the use of small mats for ceremonies) there should be some government guidelines (not rigid ones to allow for people to still make a choice) to ensure that certain traditional obligations are not impediments to poverty reduction.
- Because many of the micro scheme organizations operating within the countries studied operate autonomously, it is important that there should be a national network set up by the government to ensure that there is a uniform national structure and process and that these organizations (which in some cases may be competing against each other) can share experiences and lessons or success and failure.
- To facilitate the national network there should be a central database which holds information about micro schemes.
- A training manual on tradition and income generation/business should be produced as guideline for those involved in group and collective projects. While people live their culture, it is important to teach or provide an analysis of aspects of their own culture which they have only taken for granted.
- The family (nuclear or extended, depending on the circumstances) should be the primary target beneficiaries of the micro scheme projects, although the process may involve larger groups. For instance, a project may involve the whole village, the ultimate beneficiaries would be the families and how they are able to sustain themselves.

6.14.3 General recommendations

- Governments in the Pacific should recognize the importance of traditional norms and practices in micro schemes. Policies relating to development and micro schemes should have specific references to this.
- Those micro schemes which have been successfully integrating the two modes must

Chapter 7

ILO Convention 169 for Indigenous and Tribal Peoples

7.1 Introduction

The ILO Convention 169 provides the framework for protection and treatment of *tribal* and *indigenous* peoples. The study looks at the applicability of the convention to the indigenous peoples of the ILO Pacific members, namely Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu. This issue is an important one for a number of reasons. Firstly these countries were at some point in their history under colonial rule and under the colonial system their indigenous institutions, political rights and economic development were directly controlled by the colonial powers. Now that they are independent, it is important to examine the extent and means by which the indigenous peoples have control of their institutions as the convention advocates and the implications of this on the indigenous population. Secondly, in all the five countries the indigenous population constitutes the demographic majority – in all cases except Fiji, over 90 per cent of the total population – and hold political power. Thirdly, because the governments in these countries are dominated by indigenous peoples, it is important to see whether the provisions of the convention applies to them in the same way that it applies to other indigenous groups in other parts of the world who are marginalized and subjugated.

The Fiji situation is the most complex because the indigenous population was a minority at one stage in history and also because the applicability of the convention has been a subject of debate between on one hand nationalists who want to use it to promote Fijian interests and on the other hand those who argue that the convention is not applicable due to the politically dominant position of indigenous Fijians. In the other countries where the indigenous population makes up an overwhelming majority, indigenous rights are taken for granted and debate on the subject rarely takes place. It is for this reason that there will be a more detailed analysis of the Fiji situation to help clarify the situation.

This chapter aims to examine the links between the ILO Convention 169 and the situation of indigenous peoples in the Pacific. In particular it makes references to issues of social security and

health. It also identifies some of the shortcomings of the convention and provides some recommendations for possible future review of the convention.

7.2 ILO Convention 169 and the Pacific: An overview

Article 1 of the ILO Convention 169 of 1989 applies primarily to:

- (a) tribal peoples in independent countries whose social, cultural and economic conditions distinguish them from other sections of the national community, and whose status is regulated wholly or partially by their own customs or traditions or by special laws or regulations.
- (b) peoples in independent countries who are regarded as indigenous on account of their descent from the populations which inhabited the country, or a geographical region to which the country belongs, at the time of conquest or colonisation or the establishment of present state boundaries and who, irrespective of their legal status, retain some or all of their own social, economic, cultural and political institutions.

Given the global changes since 1957 the convention is committed to providing the legal framework for greater autonomy for these peoples to exercise control over their own institutions, ways of life and economic development and to maintain and develop their identities, languages and religions. This is meant to remove the assimilationist orientation of the earlier standards. Many of these peoples are unable to enjoy their fundamental human rights to the same degree as the rest of the population of the States within which they live, and that their laws, values, customs and perspectives have often been eroded.

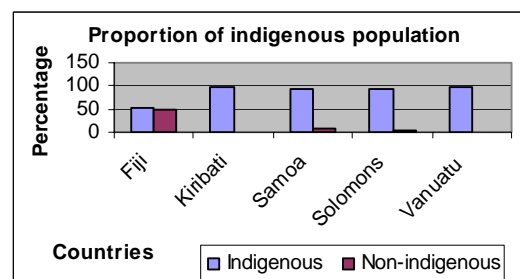
Article 1 of the ILO Convention is based on the assumption that indigenous and tribal peoples in independent countries who may also be minorities who have been marginalized economically and politically by dominant institutions and cultures introduced from outside. It is assumed that these groups still maintain their inherited cultures which can be differentiated in

one way or another from other cultures. Clearly the convention is conscious of the socio-economic, political and cultural marginalization of certain tribal and indigenous groups in situations where they have been assimilated into dominant cultures and systems and calls for their self-determination, at least to the extent of controlling their own cultural inheritance, institutions and means of livelihood. This applies to many tribal and indigenous groups who have been victims of colonial and post-colonial domination and whose rights have been undermined.

In the Pacific the convention has not really provoked any intensive debate because, except in the case of Fiji, in many cases because of the predominance of the indigenous population, the situation of the indigenous peoples have always been taken for granted. Although most Pacific societies have been under colonial rule at some point in their history, the indigenous populations have been the politically dominant, although significant economic power in some parts of the economy maybe in the hands of various minority groups. Perhaps the most unique situation is Fiji where the indigenous population was a minority from 1946 to 1996. Figure 1 (table and bar graph) shows the proportion of indigenous population in the five countries. Fiji has a slight majority of 52 per cent while Kiribati, Samoa, Solomon Islands and Vanuatu all have overwhelming majorities of over 90 per cent respectively. The numerical superiority of the indigenous groups have always been a feature of these countries since independence, except for Fiji which has been a bi-polar society where two major ethnic groups have always dominated the demographic as well as political landscape. The Indo-Fijian population overtook the Fijian population in 1946 and this reversed after 1987 as a result of Indo-Fijian migration out of Fiji following the 1987 nationalist military coup.

Table 7.1 *Proportion of indigenous population in Pacific countries*

Country	Categories	% of pop'n	Status
Fiji	Fijian	52	Slight majority
Kiribati	I-Kiribati	98	Big majority
Samoa	Samoan	93	Big majority
Solomon Islands	Melanesian Solomon Is.	94	Big majority
Vanuatu	Ni-Vanuatu	98	Big majority



Sources: Derived from National Census Reports for Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu.

The minorities are largely non-indigenous migrants or those of indigenous and non-indigenous mixed blood. Only Fiji has a relatively large non-indigenous population of 48 per cent while the other countries have less than 10 per cent respectively: Kiribati, 2 per cent; Samoa, 7 per cent; Solomon Islands 6 per cent; and Vanuatu, 2 per cent. Figure 2 shows details of the non-indigenous population.

Table 7.2 *Proportion of non-indigenous population for Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu.*

Country	Non-indigenous groups	% in relation to total population	Status
Fiji	Indo-Fijians, Others	48	Big minority
Kiribati	Tuvaluan, European, Kiribati-Tuvaluan, Kiribati-Others	2	Small minority
Samoa	Mixed, European	7	Small minority
Solomon Islands	Polynesian, Micronesian, Chinese, European, Mixed, Other	6	Small minority
Vanuatu	Part-Ni Vanuatu, Other Melanesian, Polynesian, Micronesian, Europeans, Chinese, Vietnamese, Others	2	Small minority

Sources: Derived from National Census Reports for Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu.

Apart from their numerical superiority, the indigenous populations also dominate political power. This has been the trend since independence, except for Fiji where competition over political power between Fijians and Indo-Fijians has been a dominant feature of the political system and a fundamental cause of instability.

7.3 Local definitions of indigenous

Ethnic and social identity is usually defined either internally by the group itself or externally by others. Article 1(2) of the convention emphasizes the importance of internal identity thus: Self-identification as indigenous or tribal shall be regarded as a fundamental criterion for determining the groups to which the provisions of this Convention apply. Self-identification of indigenousness is reflected in the official government categorization (such as in the national census reports) of the respective countries: Fijian in Fiji; I-Kiribati in Kiribati; Samoan in Samoa; Melanesian in Solomon Islands and Ni-Vanuatu in Vanuatu.

The question of whether those with mixed indigenous blood are classified as indigenous can be a problematic one. In Fiji one automatically becomes a Fijian in a situation where the father is

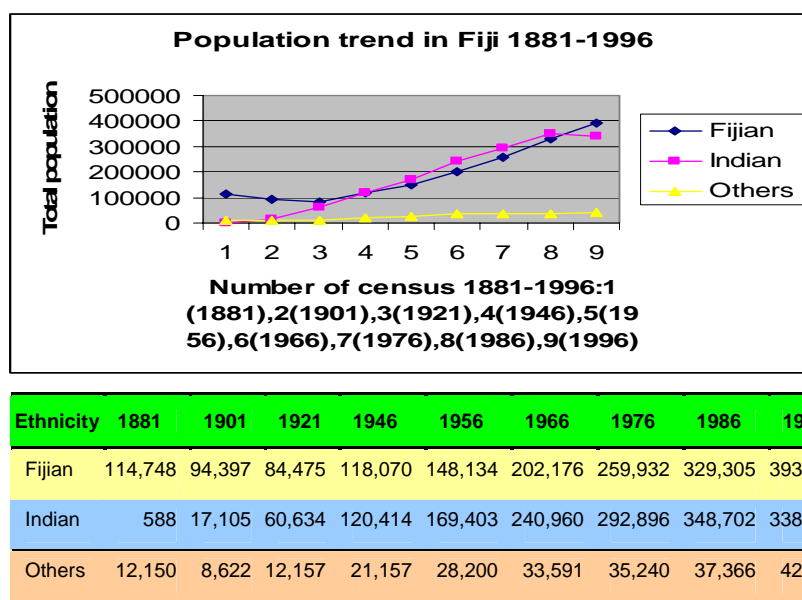
Fijian regardless of the background of the maternal parent. This is also the case in other countries, except in matrilineal communities in Vanuatu and Solomon Islands where maternal influences are very strong.

The application of the convention to the indigenous situation in the Pacific is not as clear cut as maybe assumed. This is partly because in all the Pacific countries concerned, the indigenous community is the dominant group. The case studies which follow attempts to throw some light into the issue.

7.4 Case study: Fiji

Of all the five Pacific island countries, Fiji has the most mixed population with a bi-polar tendency compared to the others which are predominantly indigenous. The population trend since 1881 is shown in the Figure 7.1.

Figure 7.1 *Relative size and increase in population in Fiji, 1881-1996*



The graph shows the continuing dominance of two ethnic groups (Fijian and Indo-Fijian) in Fiji. The Indo-Fijians outnumbered the Fijian population in 1946 and by 1996 the trend reversed. From 1996 onwards Fijians became the majority and given the current rate of demographic shift it is projected that by 2010 the indigenous Fijian population would make up

close to 60 per cent of the population, a relatively large majority.

The *Others* category consists of a number of minority ethnic groups officially classified as Chinese, Europeans, Part-Europeans, Rotumans and Pacific Islanders. Their respective sizes are shown in Table 7.3. These groups constitute about 5 per cent of the total population.

Table 7.3 *Fiji's population by ethnicity, 1881-1996*

Ethnicity	1881	1901	1921	1946	1956	1966	1976	1986	1996
Chinese	+	+	910	2,874	4,155	5,149	4,652	4,784	4,939
Europ.	2,671	2,459	3,878	4,594	6,402	6,590	4,929	4,196	3,103
Fijian	114,748	94,397	84,475	118,070	148,134	202,176	259,932	329,305	393,575
Indian	588	17,105	60,634	120,414	169,403	240,960	292,896	348,702	338,818
P-Europ.	771	1,516	2,781	6,142	7,810	9,687	10,276	10,297	11,685
Rotuman	2,452	2,230	2,235	3,313	4,422	5,797	7,291	8,652	9,727
Pacific Is	6,100	1,950	1,564	3,717	5,320	6,095	6,822	8,627	10,463
Other	156	467	789	514	91	273	1,270	810	2,767
Total	127,486	120,124	157,266	259,638	345,737	476,727	588,068	715,375	775,077

Source: 1996 Census of Fiji, Bureau of Statistics

7.5 The indigenous question

The figures show that the Fijian indigenous population was a minority for about 50 years (1946-1996). The question remains as to whether the situation of Fijians within the 50 years of demographic minority status could be said to constitute a situation of marginalization. This has to be seen in the broader socio-economic and political dynamics of the colonial and post-colonial situation. The British colonial system, which was established in 1874, had a number of significant characteristics outlined below.

- Through the centralized colonial state a homogeneous collective ethnic identity was created. The Fijian administrative structure set up under the 1876 Native Ordinance became the institutional means of political, social and cultural collective identification.
- The colonial *native policy* acted as a *protective* mechanism to shield Fijians from the excess of Western influence. For instance Fijian communal land was declared inalienable and a number of Fijian institutions such as the Great Council of Chiefs and Fijian Administration were set up to ensure that Fijians were kept within the bounds of their customary systems.
- The traditional socio-political structure, specifically the chiefly system was reconfigured to suit the demands of the colonial administration. In many ways this consolidated the power of chiefs and institutionalized the chiefly system as part of the state structure.

- The protective colonial system institutionalized ethnic separation and also gave Fijians a sense of ethno-political distinctiveness compared to other ethnic groups. This became the basis for future nationalistic mobilization.
- The colonial system locked Fijians into communal village life, under chiefly tutelage, which marginalised them from mainstream economic development, professional development and education and as a result they continued to lag behind other ethnic groups in these areas. Over the years these became the basis for nationalist grievances and political conflict.
- The protective policy of the colonial regime gave way to the doctrine of *paramountcy of Fijian interest* which argued that as indigenous people Fijians had the right to be treated preferentially and later this was interpreted as the right to assume and maintain political power and dominance.

7.6 Economic situation of indigenous Fijians

It has been argued that Fijian political supremacy was a way of *balancing* their economic marginality. While the colonial policies provided *protection* for Fijian interests, it also created conditions for economic retardation. However, over the years, especially after independence, attempts have been made to redress the imbalance. A few examples here may suffice.

As shown in Table 7.4, the per capita cash income of Europeans and part-Europeans in 1953 was FJD

468, followed by Chinese (FJD 279), who were mostly shopkeepers, and then Indo-Fijians (FJD 113), while indigenous Fijians had the lowest per capita of only FJD 60.

Table 7.4 *Estimated per capita income by ethnicity, 1953 (FJD)*

Ethnic Group	Income per head (Cash & subsistence)	Income per head (Cash only)
Indigenous Fijians	121	60
Indo-Fijians	128	113
Europeans/Part-Europeans	468	468
Chinese	302	279
Other Categories	147	113

Source: "The Pattern of the Fiji Economy, The National Income, 1950-53." Fiji Legislative Council Paper No.44 of 1956.

Disparity was also visible in professional positions as shown in Table 7.5. In 1958, of the total number of lawyers, doctors and dentists, there were 2 Fijians, 58 Indo-Fijians, 1 Chinese, 2 Part-Europeans and 74 Europeans. By 1966, only four years before independence, the ethnic proportion in relation to a number of middle class professions were as follows: lawyers (0 Fijian to 38 Indo-Fijians), doctors (1 Fijian to 12 Indo-Fijians) and dentists (1 Fijian to 8 Indo-Fijians).

Table 7.5 *Numbers qualified in selected professionals by ethnic group, 1958*

Ethnic Group	Lawyers	Doctors	Dentists	Total
Fijians	-	1	1	2
Indo-Fijians	38	12	8	58
Chinese	-	1	-	1
Part-Europeans	1	1	-	2
Europeans	17	51	6	74
Total	56	66	15	137

Source: Fiji Legislative Council Papers No.1 of 1960: 12.

The low number of Fijians in the middle class professions was indicated by income distribution. In 1967 for instance only 4 per cent of those with income above FJD 5,000 were Fijians compared to 16 per cent for Indo-Fijians, 38 per cent Europeans and 24 per cent Chinese. At the same time Fijians predominated in the low income bracket (FJD 0-1,000).

As Table 7.6 shows, the disparity in the managerial positions in 1986 was obvious with Fijians constituting only 23 per cent and Indians 77 per cent. This disparity continued (in fact slightly worsened) in 1996 with Fijians making up 22 per cent and Indians 78 per cent respectively. However,

for the professional and technical staff the proportions are almost equal with Fijians making up 45 per cent and Indians 53 per cent in 1986 and 54 per cent compared to 47 per cent respectively in 1996.

Table 7.6 *Ethnic distribution of "middle class" occupational category, 1986 and 1996*

Occupational Category	Fijian		Indian	
	1986	1996	1986	1996
Managerial	487 (23 %)	1,292 (22 %)	1,603 (76 %)	4,548 (78 %)
Professional %	7,124 (45 %)	13,699 (53 %)	8,450 (54 %)	12,351 (47 %)
Technical				
Total	7,611 (43 %)	14,981 (47 %)	10,053 (57 %)	16,899 (53 %)

Source: Fiji Bureau of Statistics, 1989; 1998.

An area of disparity is in the corporate sector where Fijians constitute a significantly small minority compared to Indo-Fijians. For instance as Table 7.7 shows, of the various managerial categories surveyed Fijians made up 22 per cent compared to 78 per cent for Indo-Fijians.

Table 7.7 *Ethnic distribution of corporate managers by category, 1996*

Man. Category	Fijian (No.)	(%)	Indian (No.)	(%)
Directors/Chief Executives	196	18	879	82
Small business managers	568	20	2,344	80
Specialist managers	193	40	285	60
Other department managers	335	24	1,040	76
Total	1,292	22	4,548	78

Source: Fiji, 1998:175

Disparity was also observed in the distribution of taxi permits where Indo-Fijians tended to dominate as shown in the figures from 1988 to 1994. But as a result of the government affirmative action policies since 1987 and the ministerial order to freeze granting of Indo-Fijian permits in 1990 Fijian taxi ownership increased significantly from a ratio of about 1:10 in 1988 to about 1:3 in 1994. Table 7.8 shows details of ethnic distribution of taxi permits from 1988 to 1994.

Table 7.8 *Distribution of taxi permits by ethnicity*

Year	Fijian	Indian	Others	Total
1988	272	2,265	49	2,586
1989	272	2,265	49	2,586
1990	289 (+17)	2,260 (-5)	37 (-12)	2,586
1991	399 (+110)	2,274 (+14)	37 (nil)	2,710 (+124)
1992	554 (+155)	2,279 (+5)	46 (+9)	2,879 (+169)
1993	748 (+194)	2,235 (-44)	107 (+61)	3,090 (+21)
15 Jun 94	988 (+240)	2,239 (+4)	124 (+17)	3,351 (+261)
16 Aug 94	1,100 (+112)	2,239	139 (+15)	3,478 (+127)
11 Nov 94	1,234 (+134)	2,239	153 (+14)	3,626 (+148)
31 Dec 94	1,289 (+55)	2,239	155 (+2)	3,683 (+57)

Source: Fiji Dept. of Road and Transport, 1994: 18.

The distribution of various occupations in Table 7.9 shows that while there are various degrees of disparity between Fijians and Indians in the categories shown, by and large there is an equal share of the respective occupations.

Table 7.9 *Occupational categories of economically active by ethnicity (Indo-Fijians and Fijians only), 1986*

Occupational Category	Fijians (%)	Indians (%)	Total
Professional, technical and related workers	45	54	15,574
Administrative and managerial	23	76	2,090
Clerical and Related workers	38	62	13,726
Sales workers	26	74	13,832
Service workers	60	40	14,479
Agriculture, animal husbandry, forestry workers and fishermen	60	40	102,614
Production, related workers, transport equipment operators and labourers	56	44	28,268
Workers not classified by occupation and unemployed	70	30	13,407
Total	56	44	203,991

Source: Calculated from Fiji Bureau of Statistics, 1989:52.

The occupational category which has a clear Fijian dominance is the civil service. There was a deliberate attempt after the 1987 military coup to allow for more Fijian recruitment into the civil service and the 1990 Constitution decreed that Fijians should constitute at least 51 per cent of the total number of civil servants. Table 10 shows the number of appointments made in the civil service from 1991 to 1994 and Table 11 shows the total number of staff in the civil service from 1991 to 1994. In both cases Fijians clearly dominated. The trend continues to this day. Currently, more than 60 per cent of civil servants are Fijians. The imbalance continues as a result of resignations and migration of Indo-Fijians out of the country.

Table 7.10 *Civil service appointments, 1991-1994*

Year	Fijian / Rotuman	Per cent	Indian / Others	per cent	Total
1991	594	58.6	417	41.4	1011
1992	1182	58.0	857	42	2039
1993	892	57.7	657	42.3	1546
1994	631	57.2	472	42.8	1103

Source: Fiji PSC, 1995:16

Table 7.11 *Total number of staff in the civil service by ethnicity*

Year	Fijian Rotuman	per cent	Indian Others	per cent	Total
1991	9,296	55.8	7,360	44.2	16,656
1992	9,682	56.6	7,429	43.4	17,111
1993	9,631	56.8	7,317	43.2	16,948
1994	9,709	57.2	7,261	42.8	16,970

Source: PSC, 1995:15

Indo-Fijians predominate in areas of retail and wholesale as well as in agriculture, especially cane and rice farming. Nevertheless Fijians have in the last few years made tremendous inroads into these areas as a result of the affirmative action policies of the government. However, there are still aspects of economic development which are still causes for Fijian grievances which have in recent times become the basis for political mobilization and conflict. Because the government has always been Fijian dominated, except for a short stint in 1999 to 2000, it had the power to directly address the socio-economic situation of indigenous Fijians through preferential policies. The reaction from Indo-Fijians has usually been negative often labelling affirmative action policies as being "racist."

7.7 Political power

Since independence in 1970 political power has always been in the hands of the indigenous Fijians. The first Prime Minister was Ratu Sir Kamisese Mara, an Oxford educated Fijian paramount chief who ruled for 13 years until his Alliance Party lost the election in 1987. The Fiji Labour Party-National Federation Party Coalition won the election and Dr Timoci Bavadra a commoner Fijian became prime minister. The coalition lasted a month when the military, under the then Lt Colonel Sitiveni Rabuka, staged a military coup in support of Fijian nationalist agitation against the largely Indo-Fijian government. Since then political power remained in the hands of indigenous Fijian political parties until 1999 when the Fiji Labour Party once again achieved victory at the polls prompting another

nationalist coup a year later in May 2000. Again a Fijian political party, the Soqosoqo Duavata ni Lewe ni Vanua (SDL) in coalition with the nationalist Matanitu Vanua Party took over political power after the 2001 election.

Fijian political aspirations have been largely driven by the notion of protection of indigenous values through the dictum *paramountcy of Fijian interests*, which argues that as the indigene Fijians have the automatic right to perpetual political power. In addition to this are socio-economic grievances and distrust of Indo-Fijians to rule over them fairly. Thus, whenever political control shifted from their hands there was a tendency to mobilize politically to reclaim lost power and twice this had led to coups. The use of force to overthrow elected governments has been justified as serving the interests of the indigenous population.

7.8 Relevance of ILO Convention 169

A number of factors need to be taken into consideration when assessing the relevance of Convention 169 to the Fiji situation.

Assessment of the socio-economic situation, especially in the area of employment and business shows that while Indo-Fijians are more dominant in the corporate sector Fijians generally dominate in the public service and are on par with Indo-Fijians in various occupational categories. The affirmative action policies of the government over the years have helped to consolidate a Fijian middle class whose professional and entrepreneurial skills are quickly matching those of other ethnic groups. The 1997 UNDP research on poverty found that the average income for indigenous Fijians was lower than that of Fijians but half the Indo-Fijian households was higher than that of Fijian households in the lower 5 (1-5) deciles. However Indo-Fijians tend to dominate the very high income bracket.

Politically Fijians have always dominated political power. With their numerical superiority now assured for the future as a result of continued migration of Indo-Fijians abroad, future political supremacy of Fijians is more or less guaranteed. While Fijians lag behind in various economic activities, they are not economically oppressed or forcefully marginalized. They are also far from being politically oppressed given their dominance of politics as well as their own cultural institutions. Although there have been acts of

injustice done to Fijians in the past such as alienation of their land, attempts have recently been initiated to address this. A lands claim tribunal will be set up to look into land claim matters. Fijians continue to control their own affairs through the Fijian Affairs Board, Ministry of Fijians Affairs, Great Council of Chiefs (GCC), Presidency (who is normally a Fijian appointed by the GCC), Native Land Trust Board and other institutions and socio-cultural processes. In fact over the years indigenous Fijians have been able to achieve many of the aims of the convention, through empowering policy initiatives, affirmative action and unfortunately through the use of force during coups. Thus at one level the provisions of Convention 169 for indigenous empowerment are already being carried out within the Fijian community. At another level, the spirit of the convention which is geared towards marginalized tribal and indigenous groups may not strictly apply to the Fijian situation because of the dominant position.

The use of the convention in the past to promote Fijian interest has been largely due to the different interpretations of Article 1(a). Advocates of Fijian supremacy have identified this section to legitimize not only Fijian empowerment, beyond that, Fijian hegemony. Article 1 can be interpreted liberally to refer to any indigenous or tribal group, no matter what their situation is. The key to contextualizing and specifying the target groups described in Article (1, 2 and 3) may be found in the second paragraph of the preamble which talks about adopting *international standards* to remove the *assimilationist orientation* of the earlier era. In the field of sociology of ethnicity, assimilation is usually associated with minority ethnic groups or sometimes politically weak majorities absorbed either by force or other means and circumstances to dominant ethnic groups or social systems. Many minority indigenous and tribal groups have become both minorities as well as politically disempowered in their own countries while in some cases the indigenous are still the majority but are significantly powerless in the face of hegemonic economic, political and military domination by others.

Furthermore, the preamble refers to the target groups thus: *These peoples are unable to enjoy their fundamental human rights to the same degree as the rest of the population of the State*

within which they live, and that their laws, values, customs and perspectives have often been eroded.

In Fiji the indigenous Fijians still enjoy political supremacy and full political rights and are not assimilated into an oppressive culture, although over the years some extreme nationalists often referred to Indo-Fijians as being oppressive. The Indo-Fijian culture has historically developed separately but does not pose any threat whatsoever to the marginalization or destruction of Fijian culture, although there has always been a sense of cultural supremacy of Indo-Fijians over Fijians. Indo-Fijians often stereotype Fijians as lazy and stupid *jungali* (bushmen) while Fijians stereotype Indo-Fijians as cunning, selfish and greedy. The co-existence of the two cultures, despite their differences has had the potential to strengthen rather than destroy each other.

The indiscriminate use of the ILO Convention 169 by Fijian nationalists to justify political supremacy can be attributed to the lack of clarity of the provisions of the convention leaving much to be assumed. While it identifies the *indigenous* and *tribal* as target groups it does not clearly stipulate what sort of indigenous or tribal peoples are referred to. Thus either people take the definitions of these terms at face value or carefully search the other clauses of the convention for clarity.

7.9 Other minorities in Fiji

Minorities in Fiji are collectively categorized and referred to as *Others* or *General Electors*. A minority group is defined by UN Rapporteur Capotorti as:

*a group numerically inferior to the rest of the population of the state, in a non-dominant position, whose members – being nationals of the state – possess ethnic, religious or linguistic characteristics differing from those of the rest of the population and show, if only implicitly, a sense of solidarity directed towards preserving their culture, traditions, religion or language.*²⁷

This definition is very similar to the ILO 169 definition of indigenous and tribal groups. While one talks of indigenous and tribal groups another talks about minorities. Some minorities are

indigenous and tribal and some are not. One would assume that there is commonality in perception and principles within and between the various UN agencies including the ILO especially in relation to the common aim of protecting the minority and vulnerable groups including the indigenous and tribal groups.

However, a significant feature of the minority groups in Fiji is that they are not indigenous to Fiji nor are they tribal groups with original socio-cultural roots in the country. They are mostly descendants of migrants from various parts of the world such as Britain, Europe, Asia (especially India), Pacific Islands and other places. Interestingly, many of them have Fijian maternal blood and are not officially classified as indigenous Fijian, except if they are formally accepted and registered by the mother's *mataqali* (extended family group) in the *vola ni kawabula*, the Fijian land and population register kept by the Native Lands Commission.

The minority groups in Fiji make up about 43,000 or 5 per cent of the population. These groups are listed in Table 7.12

The most economically prosperous and politically powerful of these are the Europeans, part-Europeans, Chinese and Asians (such as Burmese and Filipino) while the rest are largely marginalized groups. These marginalized groups have a number of common characteristics:

- They have been in Fiji for periods ranging from a century or more to a few decades only, but are numerically inferior to the rest of the population.
- Most of them possess ethnic and cultural characteristics, which make them different from the rest of the population, despite years of social interaction.
- Some of them are slowly *disappearing* as a result of absorption through marriage and cultural assimilation into other communities.
- Most of them have been deprived of political recognition as distinctive ethnic groups in their own right as a result of their inferior numerical status and weak political bargaining position. They have been collectively labelled simply as *Others* or *Generals Voters*.
- Most of them have been economically underprivileged as a result of lack of development policies targeted specifically towards their particular needs. Due to

²⁷ United Nations. 1991. *Study on the Rights of Person Belonging to Ethnic, Religious and Linguistic Minorities*. New York: United Nations. UN Sales No. E.91, XIV, para 568.

political and economic neglect, many like the Melanesians are entangled in the vicious cycle of poverty.

- Most are landless as a community and continue to depend entirely on the generosity of some Fijian landowners, churches and other organizations, who provide them with land. Lack of land security contributes to their socio-economic marginality and vulnerability²⁸.

Table 7.12 List of minority communities and brief historical background.

Community	Brief Background
Asian	This is a very small minority, which consists of Filipinos, Burmese and other Asians who have taken up Fiji citizenship. They are mostly professionals.
Banabans	Mostly live on Rabi Island. Others live in various urban centres around Fiji. They were relocated to Rabi in the 1940s after their homeland, Ocean Island (in Kiribati), was used for phosphate mining.
Chinese	The 'first wave' arrived in the early 20 th Century and the 'second wave' arrived in the 1980s and 1990s. They are mostly businessmen and commercial farmers.
European	Some have been in Fiji since the 1800s and others came later. Europeans are mostly involved in business and professional occupations.
Gilbertese	Small communities of Gilbertese have been in Fiji for several decades. They have largely been 'invisible' from mainstream national life.
Melanesian	They are descendants of labourers forcefully brought to Fiji to work in plantations during the 1800s 'blackbirding' era. They largely live in communities around the main urban centres and also some rural areas.
Part-European	These are those of mixed European and Fijian descendants, usually of Fijian matrilineal linkage.
Part-Chinese	These are those of mixed Chinese and Fijian descendants, usually of Fijian matrilineal linkage.
Rotuman	Sometimes classified as 'Fijians' and usually accorded the same privileges as Fijians.
Samoan	Most have been in Fiji since the early 1900s and live in isolated small communities around Fiji. Samoans who came to Fiji two centuries ago have been

Community	Brief Background
	absorbed into the Fijian community over the years.
Tongan	Tongans have been in Fiji for a number of centuries and have been absorbed through inter-marriage and cultural mix over the years. However, some of the late-comers now live in isolated communities.
Tuvaluan	Many live on Kioa Island and some live in isolated communities around Suva.
Wallis and Futuna	Many of these live in communal settlements such as the one in Tamavua. Many have been gradually absorbed into the Fijian community through marriage.

Source: Ratuva (2000)

Because the convention focuses on indigenous peoples, it does not cover the plight of migrants who were indigenous elsewhere (such as Solomon Islands) and resettled in Fiji. Their situation in terms of economic prosperity, political power and social status is generally inferior that that of indigenous Fijians. While some integration has taken place, many still live in isolated communities around Fiji and maintain communal identities which have kept them distinct. It is important that the Convention 169 also address the plight of such people.

7.10 Case study: Kiribati

About 98 per cent of the population of Kiribati is classified as indigenous I-Kiribati. The other 2 per cent, as Figure 13 shows consists of minority groups such as Tuvaluans - 0.4 per cent; European - 0.12 per cent; part-Kiribati-Tuvaluan - 0.9 per cent; part-Kiribati with others - 0.6 per cent; and other ethnic groups - 0.3 per cent. The I-Kiribati population shares a common language with slight variation from locality to locality.

Apart from being the demographic majority the indigenous I-Kiribati are also politically and economically dominant. They control most of the land and resources and there is virtually no competition over control of these from the other ethnic groups.

²⁸ See Ratuva, S. 2005. *Ethnicity, National Identity and Church Unity: The Case of Fiji*. Suva: World Council of Churches.

Table 7.13 Population distribution in Kiribati in terms of ethnicity, 1995

Ethnic group	Number	Percentage
I-Kiribati	75,901	97.7
Tuvaluan	273	0.4
European	119	0.2
Part Kiribati-Tuvaluan	695	0.9
Part Kiribati-Others	452	0.6
Others	241	0.3
Not stated	13	0.01
Total	77,658	100

Source: Secretariat of the South Pacific Community, 1995.

The requirements of the convention are already taking place. The I-Kiribati people have total control of the state, economic development policies and socio-cultural institutions. There is a major programme by the government to increase people's consciousness and appreciation of their culture through cultural education in schools and public awareness programs. The social security programmes such as micro-finance and health care are largely targeted towards the I-Kiribati. These programmes already fulfil the provisions of the convention and there is no need for further compliance. In this sense Convention 169 does not really apply to Kiribati.

7.11 Case study: Solomon Islands

About 94 per cent of the population of the Solomon Islands is indigenous Melanesian who speak about 100 different languages. The rest of the population consists of Polynesians - 3 per cent; Micronesians (from Kiribati) - 1.2 per cent; Chinese - 0.1 per cent, European - 0.16 per cent; mixed blood 0.7 per cent and others 0.1 per cent. The population distribution in terms of ethnicity is shown in breakdown is shown in Figure 14.

Table 7.14 Solomon Islands population distribution by ethnicity, 1999

Ethnic group	Number	Percentage
Melanesians	386,745	94.4
Polynesians	12,257	3
Micronesians	4,906	1.2
Chinese	464	0.1
Europeans	669	0.16
Mixed	2,870	0.7
Others	435	0.1
Not stated	696	0.17
Total	409,402	100

Source: National Census Report, 2000.

The Melanesians have remained politically dominant since independence, although the

Chinese, despite their small number control a sizable portion of the economy. The minorities such as the Micronesians, Europeans and Chinese are descendants of migrants. The European population first established itself in the 1800s while the Chinese first arrived in the early 1900s. The Micronesians were resettled in the Solomon Islands after the Second World War.

Only the Polynesian community has been in the Solomon Islands since time immemorial. They still maintain a separate identity, language and culture in relation to the rest of the population. Despite their small number they are treated the same as all other citizens. In terms of commercial and professional achievements they are on average better off than the indigenous Melanesians.

The indigenous Melanesians in the Solomon Islands have control of the political, economic and socio-cultural institutions. The social security and health programmes are largely geared towards the indigenous communities. However, in the recent past there have been political conflict between people from different islands (in particular those from Guadalcanal and Malaita) as a result of competition over land, resources and power. Although there are about 100 languages and sub-cultural differences there is a general philosophy of *wantokism* (one people) which binds the indigenous Melanesians into a coherent social group.

Given the dominant position of the indigenous peoples and the pro-indigenous orientation of the government, the Solomon Islands already fulfils the underlying requirements of the convention and thus does not need to comply with the existing provisions. The convention therefore may not apply in this case. It may not even apply to the minority groups many of whom are migrants.

7.12 Case study: Samoa

The total indigenous population of Samoa is 162,000 which is about 92 per cent of the total population of 177,000. The other officially recorded minorities are part-Europeans (*Afakasi*) who make up 7 per cent of the population and Europeans who make up 1 per cent. These are shown in Figure 7.15.

Table 7.15 *Samoa population distribution by ethnicity, 2001*

Ethnicity	Number	Percentage
Samoa	162,840	92
Part-European	12,390	7
European	1,770	1
Total	177,000	100

Source: National Census Report and other sources.

The indigenous Samoan category consists of various minorities - such as Tongans, Fijians, Tuvaluans, Solomon Islanders, Chinese and Niueans - who have been assimilated into the Samoan community and culture through inter-marriages over the years and have considered themselves Samoan. The Tongans first came to Samoa in the 1700s, intermarried and have settled in a number of places, the most notable being the village of Saina. Some still maintain links with their Tongan relatives, although they no longer speak Tongan. The Fijian community was started by a sailor who married into the local community and over the years the descendants established themselves in a village called Aaiofiti. The Tuvaluans, Niueans, Chinese and Solomon Islanders were brought in as labourers in the 1800s by the German colonial officials to work on the copra, cotton and cocoa plantations and have since been absorbed into the Samoan community. The descendants still live in villages such as Solomonafou for Solomon Islanders, Naionue for Niueans and Elisefou for the Tuvaluans.

These minority groups were so small that they were easily absorbed through marriage into the Samoan community. They now consider themselves Samoans, speak Samoan rather than their original languages and also have access to *matai* and land titles including the associated privileges. The indigenous Samoan community is not deliberately marginalized by any more powerful group nor their human rights abused. The social security policies including micro schemes are largely geared towards them. They are the politically, culturally and economically dominant group and the requirements for empowerment and control of cultural institutions are already in place. For this reason the current provisions of the convention do not really apply to Samoa.

7.13 Case study: Vanuatu

As shown in Figure 16, 98 per cent of Vanuatu's population consists of the indigenous Ni-Vanuatu people. The small minorities consist of part Ni-Vanuatu - 0.22 per cent; other Melanesians (such as Fijians and Solomon Islanders) - 0.11 per cent; Polynesians-0.06 per cent; Micronesians - 0.03 per cent; Europeans - 0.77 per cent; Chinese-0.15 per cent; Vietnamese-0.04 per cent and others-0.07 per cent. There is a good mix of minorities although the numbers are very small.

Table 7.16 *Vanuatu population distribution by ethnicity, 1999*

Ethnicity	Number	Percentage
Ni-Vanuatu	183,919	98.4
Part Ni-Vanuatu	410	0.22
Other Melanesians	202	0.11
Polynesians	118	0.06
Micronesians	68	0.03
Europeans	1,448	0.77
Chinese	277	0.15
Vietnamese	87	0.04
Others	149	0.07
Total	186,678	100

Sources: National Census Report, 2000

The Ni-Vanuatu population consists of many tribal groupings which speak more than 100 different languages. Because of the diversity of languages spoken a common pidgin dialect called *Bislama* is officially used to facilitate communication. The indigenous Ni-Vanuatu population is also politically dominant and still maintains its cultural institutions and traditional norms which define its identity in the modern world.

In recent years Ni-Vanuatu local communities, with the support of the government, have taken the initiatives to revive some traditional means of socio-economic exchange through the formation of the traditional banks, establishment of customary educational institutions and consolidation of local governance and leadership institutions. These are aimed at preserving Ni-Vanuatu identity, mobilizing people towards redressing socio-economic problems and ensuring effective adaptation to the modern changes. These are all in line with the ILO aim of moving towards empowerment and cultural self-determination.

Because of their dominant demographic and political position the indigenous Ni-Vanuatu do not experience any human rights abuse or marginalization by more powerful ethnic groups.

The most economically vulnerable Ni-Vanuatu are usually the rural poor, compared to the educated Ni-Vanuatu and European urban elites who often make policies from a *distance*. Although Europeans and other minorities tend to have an ethnicist perception of Ni-Vanuatu as *inferior*, this is *balanced out* by the fact that the Ni-Vanuatu people have total control of the state. In the light of these factors the ILO convention 169 may not really apply to the indigenous people of Vanuatu.

7.14 Summary: ILO and indigenous peoples in the Pacific

- For the five countries studied the indigenous communities constitute the demographic majority. The proportion of indigenous population is Fiji 52 per cent, Kiribati 98 per cent, Samoa 92 per cent, Solomon Islands 94 per cent and Vanuatu 98 per cent. Except for Fiji all the other countries have indigenous populations of more than 90 per cent. Fiji's case is unique because between 1946 and 1996 the indigenous population was a minority and since the 1990s, there has been a dramatic decline in the Indo-Fijian population and a corresponding increase in the indigenous Fijian population. The current trend in Fiji shows that Fijian numerical superiority is bound to consolidate and increase more in the future.
- The indigenous communities in the Pacific control state power and in many cases, except for Fiji, do not have any political competition from any of the minority communities.
- While the dominant group in all the five societies is indigenous, the minorities are largely descendants of migrants. However, their social, political and economic statuses in the respective countries differ considerably. For instance in Samoa, the minorities have been totally absorbed into the Samoan community and are now considered Samoan. In the case of Kiribati the largest minority are the Tuvaluan and part-Tuvaluan, a result of the close historical association between the two communities. They were once part of the same country (Gilbert and Ellice Islands) under British rule. In Vanuatu and the Solomon Islands the minorities are still considered different from the indigenous people but may have access to land and other customary privileges through marriage. The minority ethnic communities in Fiji have special political representation through reserved seats in parliament unlike the other four island states where communal representation is not part of the political system.
- Control of state institutions by the Pacific indigenous peoples have enabled them to devise policies which would further reinforce their dominance such as affirmative action policies in Fiji, cultural revival initiatives in Vanuatu and Kiribati or reform of traditional institutions in Samoa.
- The social security and social protection measure in the countries concerned are largely geared towards the indigenous population. For instance in Vanuatu the revival of traditional currencies and customary means of exchange as well as the operations of micro-finance are largely geared towards addressing the socio-economic needs of the indigenous Ni-Vanuatu population. In Fiji considerable government development and social security initiatives in the forms of affirmative action and micro-finance schemes have helped the indigenous Fijian community improve some of its socio-economic situations. The same could be said about the situations in Kiribati, Samoa and Solomon Islands where the state policies on social security are generally geared towards the indigenous people.
- In all the countries studied there is a disparity in socio-economic wealth between the poor sections of the indigenous community and the educated urban elites. The rural poor are usually the most disadvantaged and are most likely to retain aspects of traditional customs to cushion the effects of globalization. Some members of the minority communities are also disadvantaged and their problems are often the responsibility of the state.
- The situations in the five countries show that the conditions of the indigenous peoples have already been actively addressed by the largely indigenous states a situation which already fulfils the spirit of the convention. Although there are still problems such as

poverty, these are not direct results of deliberate policies of ethnic marginalization but due to other reasons such as the lack of resources, weak governance mechanisms, lack of productive capacity, amongst other things. These are areas which the indigenous governments will need to look at as part of their long term development approach. The provisions of the convention which seek to protect and empower indigenous groups do not really apply to the Pacific indigenous communities studied because they are overwhelming majorities, control the state and have firm control of their cultural institutions.

7.15 Brief analysis and recommendations

- The ILO Convention 169 needs to be much clearer on the categories of indigenous peoples it is referring to. There are different contexts of indigenous peoples which need to be understood. In some cases, as in the Pacific, they are the demographic majority and the politically and culturally dominant groups, while in some cases the indigenous population may be the oppressed and marginalized minority struggling to empower and liberate themselves from the yoke of neo-colonialism, and domination by more politically and culturally dominant groups. In other cases some sections of the indigenous population may be responsible for undermining the rights of their own people as a way of maintaining power and control of resources. Indigenous elites with particular political and economic motives may use the indigenous discourse, institutions and name to further their interests. Abuse of human rights of vulnerable indigenous peoples by powerful members of the indigenous elites is common in many places in the world. Still in other cases, indigenous groups may be responsible for acts of human rights violation against migrant communities.
- These different contexts of indigenous peoples need to be understood and must be reflected in the convention. There should be explicit mention of the particular contexts of the indigenous peoples being targeted in the convention rather than making a sweeping generalization, as is the case now, which can be interpreted in many different ways. This can lead to situations similar to Fiji, where the convention has been interpreted by Fijian extremist nationalists to legitimize the violent overthrow of *non-indigenous* democratic governments and subjugation of non-indigenous populations. The way the convention is framed can easily be read to mean that all indigenous peoples suffer the same fate of being marginalized, forceful assimilation into a dominant culture and suffering human rights abuse.
- It is recommended that the convention recognizes the diversity of the indigenous situations and identifies the specific conditions to which the convention applies. This will help avoid the ambiguities and possible misrepresentations.
- A significant issue which the convention deals with is that of non-discrimination and equality, especially in relation to political rights, socio-economic status and gender. However, this is framed only in terms of the broader external relationship with other groups rather than within the indigenous communities themselves. In the Pacific in particular many of the cases of gender discrimination and political domination are practiced by more powerful indigenous groups on their own people. This also needs to be addressed in the convention to ensure that the interests of the vulnerable members of the indigenous community are protected from sections of the indigenous community who wield greater political power.
- The convention is silent on the fate of indigenous peoples from other places forcefully resettled as labourers elsewhere. In Fiji and Samoa the minority Melanesian population consists of descendants of labourers who were *recruited* during the *blackbirding* period of the 1800s to work on the plantations. Many of these groups are small and extremely vulnerable. In the case of Fiji, they are landless and live in very marginal socio-economic conditions. There should also be provision in the convention to protect these groups.
- Within many Pacific communities the notion of *indigeness* continues to be a cause for ideological contestation. In Fiji the attempt to define who is an indigenous Fijian has become a big political and legal

issue in the late 1980s and 90s. Those with matriarchal Fijian links were considered *non-Fijians* except if one was listed in the *vola ni kawabula* or Fijian lineage and land register but this would need the consent of their mother's relatives. The conflicts in the Solomon Islands, Vanuatu, Samoa and Kiribati manifest the continuing tension between groups within the indigenous community competing for resources and legitimacy and the need to address the socio-economic and political problems existing in these communities. The threats to indigenous interests and rights in the Pacific consist of both external and internal factors. It is recommended that both these sources of threat should be addressed by the convention rather than just focusing on the *external* threat.

- The social security provisions of the convention should aim first and foremost at the weaker and most vulnerable members of the indigenous community. Some members of indigenous communities are more privileged than others and to frame them all together as a homogenous group has the

effect of *camouflaging* the situation of the disadvantaged.

- The convention tends to focus on the preservation of indigenous culture and tradition in a static *museum piece* sense. Treating indigenous peoples in a patronizing way only weakens their position in the contemporary globalized situation. Instead of simply focusing on the notion of preservation the convention should be more innovative. It should encourage cultural innovativeness and how indigenous cultures can be harnessed and utilized creatively and positively to ensure adaptation and meaningful survival in the modern world. This could help the indigenous peoples not only revive their cultures, it would also enable them to transform their socio-economic situations in an empowering way. The examples of how indigenous Pacific communities have been able to utilize aspects of their cultures to generate income through micro schemes, as shown in the ILO study on tradition and social security, is a case in point.

Chapter 8 Gender Issues and Social Security in Solomon Islands

Executive summary

There is a growing concern about inadequate social protection for workers in the formal sector, and for the Pacific Island countries the need to extend the protection to those who are not previously covered, particularly women. Current schemes in the five project countries studied do not cover the majority of the population and are confined to the formal sector.

Income insecurity is high in the informal sector and is due to the lack of opportunity that exists as a result of the lack of economic growth in the formal sector. Currently a large section of the workforce in the Pacific countries is outside the formal wage sector and is not protected by labour or social protection. Due to the specific structural and economic challenges faced by the Pacific Island countries increasing number of workers will continue to be absorbed into the informal sector.

In the absence of formal systems of social security, the working poor in the Pacific rely on the informal systems of social protection as well as their own resources such as the use of savings. Informal systems of social protection include support from relatives in the form of remittances or social or traditional networks called *kerekere* in the Fijian community, the *faá* Samoa in the Samoan society or *wantok* as in the case of Solomon Islands, Vanuatu. These services are usually inadequate and uncertain especially in times of economic crises such as have happened in the Pacific with the ethnic tensions that have occurred in Fiji, Solomon Islands and Vanuatu.

An integral part of the International Labour Organisation's mandate is the promotion of social justice. The protection of women workers and the promotion of equality between men and women in employment have been areas of longstanding concern. The 1999 Decent Work Agenda, to which all the project countries are parties, reaffirms these commitments. Other international, regional and national instruments adopted by the project countries in support of gender equality include CEDAW, the Beijing Platform for Action and the Pacific Platform for Action. Although the principle of equality of opportunity and treatment

between men and women at work is widely accepted in most countries in the world and in other sectors, in practice inequalities persist on a global basis.

It is important to underline that the status of women in the Pacific and the conditions of their lives have been shaped by a broader range of forces, notably their gender, ethnicity and social class, and the broader social, political and economic environment. Similarly, the legal status of women, in particular their position in respect of employment legislation, is crucially influenced by such factors. It is therefore important to understand these factors for a comprehensive analysis of the status of women in the Pacific. This includes the institutions, legislation and programmes in place to support the promotion of gender equality which determines their status and position in society. Education impacts directly on the status of women, the types of jobs available to them and their mobility within the employment sector.

Equal treatment in social protection, similar to programmes and activities implemented in any other sectors, assumes that men and women are in the same employment situations regardless of sex. Therefore measures for promoting equality in social security need to be developed based on an accurate assessment of the needs of men and women and a thorough assessment of the impact of social protection and social security systems on their positions.

The aim of the project is to improve the coverage and efficiency of social security systems in five selected countries in the Pacific sub-region including Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu, by developing and implementing national action plans for the extension and improved governance of social security systems and by conducting joint capacity building activities at the sub-regional level. *Based on a gender analysis and a gender needs assessment of social security, the project will develop social security policy which is more responsive to gender-specific needs and promotes greater gender equality.*

This chapter has to a large extent drawn extensively from the researches undertaken for the five project countries for the formal and informal sectors which also identified, in order of priorities, the social security needs within each country. The chapter provides an overview of the current status of women in the workplaces and discusses to some extent the major contributing factors.

Based on the findings of informal/formal sector reports this chapter identifies specific gaps based on these studies and makes recommendations for further gender analysis to be carried out on the different work patterns of men and women, the demographic changes and the changes in the structure of the labour markets.

A number of non-conventional social security schemes are in place that women have established to meet contingencies. There is a need to research and document these various schemes and devise ways to support such schemes with the development of policies and legislations and designing specific training to build the capacities of women and stakeholders involved in such schemes.

The opinions expressed in this paper are those of the author and do not necessarily reflect the views of ILO or the Netherlands Government.

8.1 Introduction

Social protection and social security provide an agenda primarily for reducing vulnerability and risk of low-income households with regard to basic consumptions and services. Analyses of current schemes reveal that they target the poor and vulnerable members of a society including health status, age, differences between formal and informal economy. Except for maternity benefits that benefit women directly, gender analysis has rarely been used to assess the various impacts of such schemes. Existing schemes in the Pacific such as the provident fund were introduced when the gender issues had not seriously entered the discourse at national or regional levels, resulting in minimal attention given to addressing the issue of gender inequality in these schemes. The project *Subregional Initiative on Social Security in Pacific Island countries* provides an opportunity to integrate gender equality into the various schemes that may be proposed for the countries of the Pacific region.

Gender refers to the social construction of the different roles and responsibilities assigned to men and women by all societies around the world. These often reflected a division of labour based on economic and biological needs and deemed effective at a particular point in time. They then became embedded in cultures and traditions over time. Even though economies and societies are in continual evolution, some practices persist and interact with new economic and social events that often lead to a lack of social cohesion in communities. These result in increasing gender inequalities in access to and benefits from resources available to a community. By and large, universally it is women that are usually the most disadvantaged.

Recent decades have seen significant efforts by all countries, to improve the status of women. This has been achieved particularly through their economic empowerment with access to education and training, paid wage employment and more women in business. Nevertheless, inequalities persist and as a result, women receive less income for their labour and acquire less wealth than men. They tend to be the majority amongst the poorest in most societies, especially those solely responsible for the livelihood of themselves and their children. Not all gender inequality is narrowly related to economic issues and there is today the emergence of gender issues of particular relevance to men, for example HIV/AIDS, fatherhood, men's health, higher occupational risks faced by men in mining, for example.

Social protection systems developed during the past decades in many countries tended to reflect certain models, based on formal economy structures and occupational structures of the labour market. In terms of gender, they often mirrored a male bread winner family model, with women as secondary earners. Women's contribution to society through care of families was not factored in, resulting in inequalities for example in pension entitlements. In recent times, the labour market structure and family structures have been changing significantly with women accessing jobs and occupations previously the domain of men. Increasingly, the sole male bread winner and nuclear family represent a minority of family types within the variety of family setups today in many countries. These have also been influenced by rural to urban drifts and migration. These changes have significant implications for social protection systems if they are to be relevant

for the population as a whole, viable, and not contribute to perpetuating gender inequalities.

Furthermore, the issue of extending social protection to both men and women not covered at all as they work is the major challenge today, especially as the informal economy is very large in many countries.

Addressing the high levels of poverty amongst women and children has been recognised by the international community as critical to the economic and social progress of nations. Therefore, many efforts are currently directed at the economic empowerment of women. Social protection systems in the informal economy which operate with a gender lens can be powerful instruments for introducing greater economic security to the poorest in our societies and provide a basis of stability and long term prosperity for nations as a whole. The ILO project *Subregional Initiative on Social Security in Pacific Island countries* (Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu) is working along these lines.

The chapter acknowledges and underlines, based on existing and other studies, that women are greatly disadvantaged both in the formal and informal economy. As a result they are more likely to be excluded in greater numbers as compared to men from social protection. These situations are the product of limited economic growth and the broader social, political and economic environment.

The first part of the report deals with the overview and briefly discusses the origin of gender equality and the various international conventions and regional declarations and commitments that exist, with specific reference to social security framework, to advance gender equality within the Pacific. This includes a brief gender analysis of the legislation, policies, programmes and budgets, of two countries, in support of gender equality and in the context of social security. The third part is a brief outline of the formal and informal economies and the social security implications this has on gender equality. An attempt is made, based on the findings of other specific commissioned reports, preliminary discussions during the country visits and the gender workshops undertaken in the project countries, to analyse from a gender perspective the social security schemes that currently exist.

Part three looks at the roles of ILOs social partners in social security and makes recommendations for implementation for social protection initiatives that are gender responsive.

8.2 Overview

Social security in the Pacific Island countries is generally available only to people in formal employment who are obliged or entitled to participate in a variety of social insurance schemes. These schemes provide social insurance cover for retirement, work accidents, health and death. The schemes are funded by contributions from employers, employees or a combination of contributions from both and managed by provident funds. For most of the Pacific Island countries the provident funds operate as de-facto social security or social assistance systems in the sub-region. There are however, serious limitations because provident funds are in essence individual savings schemes managed by the fund with the effect of redistribution or social solidarity limited as it entails little or no income redistribution or social solidarity.

In the absence of unemployment benefit or any organised form of social assistance, the provident funds also function as a social safety net that meets the immediate need for cash for the people who experience unexpected adversities such as economic crises or social unrest. These withdrawals from the fund are, however, at the expense of savings for retirement. This resultant limited retirement benefits results in more retired workers who have to rely on traditional family and community support. This family and community support is often provided by females who are also expected and responsible for looking after the aged and the family. This places additional burdens on the women whether they are working in the formal sector or as unpaid workers in the informal sector. This traditional support is however, fast breaking down as society transforms into a modern society. The continuous rural-urban migration, together with an increasingly monetised economy, places further strain on cultural practices and traditional support systems.

8.3 Social security project in the Pacific

This project aims to improve the coverage and efficiency of social security systems in five selected countries in the Pacific sub-region

including Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu by developing and implementing national action plans for the extension and improved governance of social security systems, and by conducting joint capacity building activities at the sub-regional level. *Based on a gender analysis and a gender needs assessment of social security, the project will develop social security policy which is more responsive to gender-specific needs and promotes greater gender equality.*

Social security systems in the Pacific sub-region are at different stages of development and are faced with major challenges both in terms of policies and implementation.

Social security is not only a basic need; it is a basic human right. However, in the countries in the Pacific sub-region, only limited numbers of people have access to limited extent of protection by social security systems. The lack of adequate social security represents one of the greatest challenges facing the countries in the Pacific. In the absence of comprehensive social security cover by the national system, the ultimate safety net is still provided by the traditional social practices and family support, which tend to weaken as the society transforms into a modern one. The absence of well-functioning social security systems is one of the major causes of poverty, ill health and high mortality.

From a gender perspective the project was constrained in many respects and had the effect of limiting a proper gender analysis of the needs of men and women, the division of labour between men and women, the constraints and/or opportunities, particularly the discrimination experienced by women, directly and indirectly. The specific country researches on the formal and informal sectors identified the needs and ranked in order of priorities the social security schemes of the samples population. However, as acknowledged by the specific country reports the sample surveys were biased towards males and may have affected the outcome of the surveys.

Similarly there is a need to further analyse the division of labour especially with regard to fisheries and agricultural activities. Surveys show that most men as compared to women are engaged in these two sectors. Specific surveys, however, need to be carried out to determine other fishing activities, carried out by women, are captured in these classifications. These activities

include both pre-harvest and post-harvest such as processing, distribution and marketing and where women are mostly concentrated but are not seen as important and therefore become *invisible fisher folk*. As a result they do not appear in the official figures and statistics of island countries because the emphasis is usually on cash-based fishing such as outer reef offshore fishing and for export or other lucrative commodities such as *beche-de-mer* which are predominantly the domain of men.

This is the same for the agricultural sector where the tougher physical jobs of clearing land for planting are undertaken by men. Activities such as looking after gardens as in Fiji, for example, where the moulding of yams and tending to vegetables and harvesting of crops are all done by women are not taken into account. In many of these cases because of the patrilineal nature of such societies the fields and plantations are seen as belonging to men thus farming is their work and responsibilities and as such will be reflected in the kind of data collected.

This report will draw, to large extent, from the specific country reports undertaken for the formal and informal sectors and gender analysis is based on the finding of the surveys carried out.

8.3.1 Coverage problems

Similar to other developing and under-developed countries, large parts of the population in the Pacific Island countries such as those working in the rural and urban informal sectors are not at all or not adequately covered by social protection. The major constraints to the growth of social protection in these countries include:

- Existing programmes mainly cover workers in the formal sector with regular jobs, who account for a fraction of the labour force. Therefore the pool of potential contributors and beneficiaries is limited for contribution-based schemes. Also, due to the absence of fiscal tradition in many of these countries, the revenue base which might be used to finance universal benefits is narrow.
- The scope and level of social security benefits are also inadequate. In most Pacific Island countries, national provident funds and workers' compensation are the only available social security benefits, which were implemented in the pre-independence days. Other types of much needed benefits

such as health care, sickness, maternity, unemployment benefits are not available. Furthermore, the level of benefits provided from the existing schemes is not sufficient to provide adequate protection for the workers and their families.

- A straightforward savings scheme of the provident fund type fails to provide guaranteed national minimum benefit, as there is no pooling of risks. The members of the provident funds at retirement usually have no option but to receive their benefits as a lump-sum. Lump-sum benefits are vulnerable to pressures for speedy consumption by the recipients and their extended families.
- Workers' compensation schemes are still based on employers' liability, which does not ensure the full compliance particularly by employers of small sized enterprises. Compensation is usually made as one-off lump sum payment only in the event of accident or disease directly resulted from work (excluding accidents during commutation), and benefits for rehabilitation, prevention and promotion of occupational safety and health are mostly not provided.
- Basic medical care is provided free by the government for all nationals and includes hospital confinement, professional services, laboratory examinations and medicine. However, because of the inability of government to allocate enough budgets, the quality of public health services is poor. In most remote islands, people go to clinics that may be staffed only by a trained nurse. Women still depend at childbirth on midwives or traditional birth attendants. Major hospital services at tertiary level such as heart operations and dialysis are only available in one or two hospitals in the capital cities. For emergency cases, evacuation to Australia, Hawaii and New Zealand is possible under the referral system only if a panel of doctors approve the case to be *urgent and treatable*.
- Administrative arrangements for existing social security institutions such as the provident fund and social welfare ministries to collect contributions and/or pay benefits do not function effectively or efficiently that

the scope of the programmes falls far short of meeting the needs of those entitled.

- Another major constraint is largely social and political. In countries such as the Pacific it is difficult to promote a greater commitment to solidarity between the haves and have-nots and to get the more affluent, secure workers to push for the extension of social security to the uncovered and poorer sections of the population who are unlikely to be able to pay their own way.

It therefore follows that existing schemes, developed and implemented at a time when gender equality was not a major focus and of concern within the Pacific, did not take into account the specific gender issues that occur due to the different employment conditions and situations of men and women. Under such situations women experience both direct and indirect discriminations. As in the case of Fiji direct discrimination is experienced by women under the provident fund withdrawal provisions where there is different treatment of newly married women and men. It can be argued that this is based on the idea that a woman is dependent on her husband, and where it is permissible for women to apply for partial withdrawal of her contribution upon marriage. This facility is not available to newly married men and it can be assumed that this is based on the notion that women, because of the newly and increased responsibility that comes with marriage, the withdrawal is to meet such expenses.

A thorough assessment of the indirect discriminations experienced by women in the project countries is also necessary but due to time constraints, and where the visits were largely concentrated in conducting the one-day gender workshops, this was not possible. Specific examples were cited during the gender workshops and anecdotal evidence seems to suggest that such discriminations exist. In Kiribati for example a number of complaints were lodged with AMAK²⁹ by widows who (together with their children) were denied survivors' benefits under the provident fund at the death of their husbands. Benefits were distributed amongst the father and brothers. A major reason cited is the qualifying conditions required to be fulfilled by

²⁹ AMAK refers to the Aia Mwaea Ainen Kiribati the national women's NGOs

men and women. In a particular case the decision by the provident fund was upheld by the court based on his nomination before marriage. These situations call for a thorough analysis of the qualifying conditions that have the effect of discriminating against women and men and are contrary to the stated (*de jure*) provisions of the schemes.

8.4 Economic and structural framework of small island states

A key challenge faced by Pacific Island countries is the *small size of the domestic market*. The diseconomy of scale limits research and development and technical progress since small size inhibits the development of local technologies. Moreover, small domestic markets prevent the emergence of a competitive market and therefore can be expected to experience generally higher prices of inputs and of finished goods. Most Pacific Island states also possess a *small and/or poor domestic resource base* that results in a *narrow range of exports and export markets*. The need for specialization, highlighted by the above characteristics, tends to limit export-oriented domestic output to just a few products and renders it very vulnerable to external shocks and this vulnerability is likely to be exacerbated by a dependence on export markets in just a few countries. In view of the above the Pacific Island states are usually characterized by a *high level of openness to trade, high dependence on foreign aid and are highly vulnerable to natural disasters*.

These factors mitigate against development, and income generation and employment creation in the formal sector is very limited. Annually only one-half of the 17,000 school leavers are absorbed into the labour market, with the residue of about 6,000 either entering the informal sector or joining the growing number of unemployed.

Consequently the growth of social security coverage in the Pacific Island countries is limited both as a function of limited economic growth and the lack of technical knowledge and expertise to develop and design schemes that are relevant to the Pacific Island countries. This is further aggravated when assessing the needs of both men and women from a gender perspective. Gender equality is often assumed with resultant policies and programmes designed as *one size fits all* and have the effect of producing further discriminatory practices. Applying a gender

neutral approach in such given situations gives rise to further inequality because from the outset the socio-economic situations of men and women are often not equal.

8.5 International and regional instruments in support of gender equality in social security

The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), Beijing Platform for Action (BPA) and the Pacific Platform for Action (PPA) continue to be the driving force for the advancement of women's issues and concerns and gender equality within the Pacific region. These platforms contain commitments to gender equality in the areas of employment and social security

It is important to note, that despite commitments by governments to these various international, regional and national platforms and with some obvious progress identified, overall, gender equality is far from being achieved in all areas including political, social, economic and cultural. The review of the Beijing Platform for Action undertaken in March 2005³⁰ confirms that most of the goals set out in these platforms have not been achieved. Barriers to women empowerment remains and the Pacific Island countries are no exception; if anything it is far worse for women because of the structural, economic and fiscal constraints faced by these countries. These situations combined with growing population, political and ethnic conflicts and limited opportunities for economic growth and income and employment creation are some of the impediments currently faced by Pacific women and indeed the world over. Women, despite their contributions to the economic development, continue to face discriminatory practices in the areas of employment. Discrimination in hiring, remuneration, promotion, training as well as inadequate sharing of family responsibilities and inflexible working conditions continue to restrict employment, economic and other opportunities for women.

³⁰ CSW meeting to review the Beijing Platform for Action was held in March 2005.

8.5.1 Convention on the elimination of all forms of discrimination against women

At the international level the recognition and the articulation of the *rights of women*, as critical to the welfare of any nation, had its origins in the adoption of the Nairobi Forward-Looking strategy in 1985. Successive conferences were held to further promote gender equality, culminating in the Beijing Conference in 1995 and the subsequent 29th General Assembly meeting that was held in 2005 to review the progress made in the implementation of the Beijing Platform for Action endorsed in 1995.

The United Nations General Assembly in recognition of women's rights as human rights adopted the Convention on the Eliminations of All Forms of Discrimination (CEDAW)³¹ in 1979 which came into force in October 1981. The Convention defines what constitutes discrimination in the areas of social, political, economic and cultural context. It safeguards the reproductive rights of women and obligates the countries that have ratified the convention to put in place measures, in the form of legislation, judicial and administrative, that will contribute to the elimination of these discriminations and bring about gender equality for all.

With specific reference to social security, *Article 11, section (e)* of the convention deals with employment that states, amongst other things, the State Parties shall take appropriate actions to eliminate discrimination against women in the area of employment *inter alia the right to social security, particularly in the cases of retirement, unemployment, sickness, invalidity and old age and other incapacity to work and the right to paid leave. Section (f) guarantees the right to the protection of health and to safety in working conditions, including the safeguarding of the function of reproduction.*

Article 13 states that women are to be accorded equal rights to benefits that accrue to families, either in their own rights or as parents, married or unmarried, such as children's allowances, housing allowances, public housing, health insurance or coverage, or other government subsidies or allowances.

General Recommendation 16 of the convention makes special proposals for women in the informal sector (for example unpaid women workers in family business) and the social security benefits that are available, that state parties take necessary steps to guarantee payment, for social security and social benefits to women where they are without such benefits.

All project countries of the Pacific, including the project countries, are parties to the convention. However to date efforts to address gaps and constraints in relation to women's positions in the workplace have not been consistent within the Pacific Island countries by National Women Machineries (NWMs), NGOs and donor partners.

8.5.2 Beijing platform for action and the Pacific platform for action

The Commission on the Status for Women (CSW), mandated by the United Nations General Assembly, organised the Fourth World Conference for Women that resulted in the Beijing Platform for Action (BPA)³² in 1995. Twelve critical areas are identified under the platform calling on governments, international organisations, private sectors and NGOs to take specific actions to advance gender equality in the specific areas.

Women's participation in both the formal and informal labour markets, over the decades has increased significantly. Whilst most are still engaged in agricultural and fishing activities they have at the same time become increasingly involved in micro, small and medium-sized enterprises and in some countries have become dominant in the expanding informal sector. These new employment opportunities are however, marked by low wages, little or no labour protection and lack of job security and social security. Very few women have broken the *glass ceiling*³³ syndrome and even in such circumstances their mobility is confined to only a limited range of jobs. In recognition of this, the Platform for Action under its' *Strategic Objective F.5. "Women and the Economy"* identifies the need to enact, enforce laws and develop workplace policies to address "gender

³¹ CEDAW as of April 2003 has been ratified by more than two-thirds of the members of the United Nations including Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu.

³² Beijing Platform for Action was endorsed by the five project countries in 1995

³³ Glass ceiling is a term used to describe the artificial barriers based on attitudinal or organizational bias that prevent qualified individuals from advancing upward in their organization into management level positions.

discrimination in workplaces and extend employment benefits and social security...” More specifically *Strategic Objective F.6.* calls on governments to *promote harmonisation of work and family responsibilities for women and men.*

From the perspective of the ILO, the platform adequately reflects the mandate and interest of ILO and due recognition is given to International Labour Conventions including Section A on poverty, Section F on gender inequality in economic structures and Section I on human rights. Paragraph 168 makes specific reference to the safeguarding and promotion of basic workers rights, including the prohibition of forced labour and child labour including equal remuneration for men and women for work of equal value and non-discriminatory employment.

In preparation for the Beijing Conference, the Pacific region, made up of 22 Pacific Island countries and territories (PCITs), endorsed the Pacific Platform for Action (PPA) which formed the basis of the Pacific region’s contribution and participation to the Beijing Women’s Conference.

The PPA was endorsed in 1994 by the Secretariat of the Pacific Community (SPC) member countries.³⁴ It identified 13 critical areas requiring immediate attention and called on the governments of the region and civil societies to make available the necessary resources, both financial and technical, to advance and address these concerns. The thirteen critical areas include: health, education, training, economic empowerment, agriculture and fishing, legal and human rights, shared decision-making, environment, culture and the family, mechanisms to promote the advancement of women, violence against women, peace and justice, poverty and indigenous peoples’ rights. Central to these issues is the eradication of poverty particularly the poverty with regard to women.

Although the PPA identifies economic empowerment for women as one of its critical areas, the platform falls short of providing an enabling framework with specific strategic objectives and actions to address social security issues for women and men in the formal and informal sector. This is attributed to the lack of

capacities and technical know-how to allow a complete analysis of the employment issues by policy makers, civil societies and non-governmental organisations. Very few Pacific countries, like Fiji, have to date carried out studies and researches on the legal status of women and with specific reference to the employment legislation. In countries that have carried out such studies, these have been inconsistent due mainly to the lack of specialised expertise in this area. Therefore the extent of discriminatory practices both ‘*de jure*’ and ‘*de facto*’ experienced in the employment sector by both women and men have not been properly analysed and quantified. The lack of strong national women’s machinery (NWMs) and NGOs dedicated to the review of such practices facilitates the perpetuation of a condition of gender inequality in the workplaces.

Attention to employment issues in the informal economy poses further challenges due to the lack of data/information, the unregulated nature of the sector and the lack of national indicators to accurately define the sector.

8.5.3 International Labour Organisation and gender equality

Integral parts of the International Labour Organisation are the promotion of social justice, the protection of women workers and the promotion of equality between men and women in employment which have been areas of longstanding concern. Although the principle of equality of opportunity and treatment between men and women at work is widely accepted in most countries in the world, in practice inequalities persist on a global basis.

The ILO promotion of equality found its origin in the Declaration of Philadelphia. The fundamental principle of equality of opportunity and treatment between women and men has been approached by ILO in three ways:

- 1 As a matter of **human rights** and essential condition for achieving effective democracy. The fight against discrimination on the basis of sex is considered a fundamental issue in protecting human rights;
- 2 As a matter of **social justice** and poverty alleviation, by improving women’s access to employment and training and their conditions of work and social protection;

³⁴ Secretariat of the Pacific Community (SPC) serves 22 Pacific Island countries and territories through technical assistance, training and research. Australia, France, New Zealand, the United Kingdom and the United States as founding members are also members.

- 3 As a matter of **social and economic development**, by promoting the participation of women in decision-making and in shaping development and labour policies and practices that adequately respond to equality objectives.

Other ILO policy statements concerning women workers and promoting women's rights include:

- The Declaration on Equality of Opportunity and Treatment for Women Workers and the Resolution concerning the Plan of Action with a view to Promoting Equality of Opportunity and Treatment for Women Workers (1975);
- Resolution on Equal Opportunities and Equal Treatment for Men and Women in Employment (1985);
- The Plan of Action on Equality of Opportunity and Treatment of Men and Women in Employment (1987);
- Resolution Concerning ILO Action for Women Workers (1991); and
- Resolution concerning the Promotion of Gender Equality, Pay Equity and Maternity Protection (2004).

The 1975 Declaration constituted ILOs contribution to the 1st World Conference for Women in Mexico held in the same year. The 1985 Resolution was ILOs contribution to the Nairobi Conference, and it called for the intensification of action to be taken to implement the provisions of existing ILO instruments concerning equality. The Resolution outlined a comprehensive set of measures for national as well as ILO action to be undertaken in various areas which included:

- 1 Equal access to employment and training;
- 2 Promotion of the full implementation of the principle of equal treatment for work of equal value;
- 3 Improvement of working conditions;
- 4 Harmonisation of family and job responsibilities;
- 5 Equal treatment in social security coverage;
- 6 Ensuring the full participation of women in decision making processes at all levels;
- 7 Establishing and strengthening national machinery to promote equality of opportunity and treatment effectively; and
- 8 Improving the data base on women.

Other key equality conventions include the ILO Convention on Equal Remuneration (1951, 100),

the Convention on Anti-Discrimination in Employment and Occupation (1958, 111), the Convention on Maternity Protection (2000, 183) and the Convention on Workers with Family Responsibilities (1981, 156). To-date most of these conventions have not been signed by the project countries.

The main purpose of the Plan of Action on Equality of Opportunities and Treatment of Men and Women in Employment (1987) is to ensure that issues relating to equality of opportunity and treatment are systematically included in each stage of the policy formulation, planning, and implementation in all ILO programmes and projects.

Despite these ILO commitments, globally, gender inequality continues to persist in workplaces. The ILO Pacific Regional office directly responsible for implementing the ILO mandate in the Pacific region is constrained, in terms of resources including financial and gender-specific capacity, to promote gender equality in a number of programmes undertaken by the office.

(i) *Decent Work Agenda*

The International Labour Conference in 1999 endorsed the Decent Work agenda and the overarching objective of the ILO to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. The ILO Decent Work agenda is guided by four strategic objectives:

1. Promote and realise standards, fundamental principles and rights at work;
2. Create greater opportunities for women and men to secure decent employment and income;
3. Enhance the coverage and effectiveness of social protection for all; and
4. Strengthen tripartism and social dialogue.

Gender equality is a cross cutting concern in the Decent Work Agenda and strong efforts have been made to accelerate gender mainstreaming within each of the four strategic objectives with the development of specific gender indicators and targets.

ILO member states in the Pacific sub-region have been active in working with the ILO to develop and implement National Action Plans for Decent

Work (NAPDW). The outcomes were presented at the Sub-regional Tripartite Forum on Decent Work held in Auckland in October 2003, which provided an opportunity to consolidate the significant progress in promoting the Decent Work Agenda across the sub-region. In their NAPDW, the following problems have been identified by the ILO tripartite constituents as major Decent Work deficits in respect of social security:

- 1 Limited coverage of social security, in particular for workers in the informal economy (Fiji, Kiribati, PNG, Solomon Islands),
- 2 Inadequate scope and level of social security benefits (Fiji, Solomon Islands), and
- 3 Problems of governance and sustainability of social security system (PNG, Solomon Islands).

In response to these deficits, the National Action Plans for Decent work (NAPDW) prescribe the actions for ILO support to the development of a national strategy for extension of social security coverage and to provide technical support for improvements in financial governance, investment policy and administration of social security benefits.

(ii) *Minimum social security standards*

Social security is the protection which society provides through a series of public measures against the distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from: sickness, maternity, unemployment, invalidity, old age, death, widows and sole-parents. It is composed of: social insurance, social assistance, family benefits, provident funds; and the provisions made by employers such as workers' compensation and other complementary programmes.

The ILO Convention 102: Social Security (Minimum standards), 1952 identifies nine main branches of social security which cover most if not all principal contingencies faced by workers and their families during the course of their lives. This includes:

- 1 medical care,
- 2 sickness benefit,
- 3 unemployment benefit,
- 4 old age benefit,
- 5 employment injury benefit,

- 6 maternity benefit,
- 7 invalidity benefit,
- 8 family benefit, and
- 9 survivors benefit.

These international regional conventions and platforms reinforce and acknowledge that sustainable development, good governance and economic growth, eradication of poverty and democracy cannot be achieved without attention being given to gender equality particularly in the social security sector. This project, as one of its main goals is to develop a social security policy which is more responsive to gender-specific needs and promotes greater gender equality, provides an opportunity to realise this stated goal. Furthermore, through the project, a number of technical experts have been brought into the region to work on a number of specific areas, which under the existing structure would have not been possible.

8.6 Social security in the Pacific Island countries

Social security in Pacific Island countries is generally available only to people in formal employment and who are obliged or entitled to participate in a variety of contributory social security schemes. These schemes provide cover for retirement, work accident, health, and death. The schemes are funded by contributions from employers, employees or a combination of contributions from both and managed by provident funds through tripartite boards of management.

The present social security programs in Pacific countries, like most developing countries, were envisaged to capture a finite group of formal sector workers and ultimately extend the coverage over a number of years. This was facilitated by granting exemptions to various employers or employment categories in the initial legislation and regulations. However, over time it is evident that in general, these exemptions have not been removed and many of the schemes differ little from their original inception decades ago.

The current social security eligibility extends to employees of the military, civil service and private companies above a prescribed staff size and total payroll. The remainder of the population employed in smaller enterprises, self-employed in the informal economy, and the unemployed or

aged rely on private insurance or support from immediate and extended families and the local community. In the short term, it is likely that social security provisions may be extended to include more of the people employed in the formal sector and the self-employed. In the medium term, additional programs of unemployment benefits and social assistance to selected sectors of the population may be possible. The extension of social security entitlements to the entire population will be a long-term goal in most Pacific countries.

The study into the progressive extension of social security eligibility to the wider population needs to examine the options for extension of eligibility to the excluded formal sector workers, and examine the needs of workers in the informal economy and in some cases for overseas migrant workers. The informal economy by its nature is difficult to quantify, and the lack of a standard definition and categorization of workers and their distribution has resulted in a limited availability of statistical data relating to workers in the informal economy. This is particularly true in most Pacific countries, many of whom have not completed labour market surveys and rely completely on the limited labour information from population census conducted in five or ten year intervals.

The growth of the informal sector has provided much needed job opportunities for women; however, because of the unregulated nature of the sector, the dual role performed by women as workers with family responsibilities, and the lack of accurate needs analysis of men and women, women continue to be disadvantaged. For both the formal and informal economy women continue to face challenges such as the narrow range of occupations and the lower level of jobs that are available to them as female workers. Consequently this has not led to improved coverage of women workers under the existing social security protection schemes.

8.7 Economic and social conditions of women

It is important to underline that the status of women in the Pacific and the conditions of their lives have been shaped by a broader range of forces, notably their gender, ethnicity and social class, and the broader social, political and economic environment. Similarly, the legal status of women, in particular their position in respect

of employment legislation, is crucially influenced by such factors. While it is an undoubtedly a useful and instructive exercise to undertake a focussed gender analysis and assessment of social security, and to develop a social security policy which is more responsive to gender-specific needs and promotes greater gender equality, there is however a need to be mindful of women's political and social status along with the cultural values that underpin this. Understanding the other, non-legal, forces that define the position of women in the Pacific Island countries, including the barriers to their equality and advancement, are critical; and in a very practical way, this can also help guide measures such as recommendations for future actions and legal reform.³⁵

It is not the intention here to discuss in any depth the linkages between the legal and social status of women, except for a few of these fundamental issues; and the dominant ideologies about women and gender relations. Suffice to state that the many anomalies in the Pacific countries current employment conditions for women reflect persisting views about the desired gender division of labour and the subordinate status of women within this. A key feature is the expected domestication of women and the primacy attached to women's reproductive role as caregivers, nurturers and teachers etc, as well as their productive role as subsistence food providers within the family. Both of these roles are undervalued as well as unpaid even though it is such activities that women play a critical role in safeguarding family living standards. The contribution by women in these areas, such as looking after the aged and the young, indirectly contributes to the productive sector of the economy and there is a need to quantify and value this for economic computations.

These dominant ideologies about women and the gender division of labour appear to spill over into the public domain in such a way as to determine, overall, an inferior and disempowered status for women within the national economy of the countries studied. They directly contribute to the limited access women have to employment; the type of categories of work that are open to them; and their higher unemployment levels. Women's disadvantaged access to employment can have significant consequences; for example in the contributions and the consequent benefits that can

³⁵ The duration of employment by the current gender specialist did not permit this broad analysis to be carried out.

accrue to them in social security benefits and aggravating the poverty levels that they are in.

Gender based cultural values place limits on women's occupational mobility particularly their promotion to positions of authority or seniority. They facilitate the more intensive, relative to men, exploitation of their labour, and they underline their generally lower incomes and poorer conditions of work. Indeed 'female' jobs are more often than not, low wages/salaries and low status, and a significant proportion engage women in servile capacity: offering some kind of community, public or personal service whether unskilled (domestic work, office cleaning), skilled (clerical work, personal assistants) or professional (nursing and teaching).³⁶ Even in these professional areas such as teachers there are gender-based income inequalities, as women tend to be concentrated, relative to men, in primary schools where pay is comparatively lower than secondary and junior secondary schools. In Kiribati, for example, the 2000 Census³⁷ revealed that in total there were 15 female head teachers in primary schools as compared to 8 males, and a total of 3 female head teachers in secondary school as compared to 9 males for the same year. In respect of unemployment, women experience a higher level of unemployment compared to men in all the Pacific Island countries.

8.8 Education and social security

Occupational mobility, low status and lower income experienced by women are generally a direct consequence of education levels attained. As a result, social security and social protection benefits available to women can vary dramatically if it is not based on the practical assessment of their needs.

Steady progress has been made on achieving gender equality in educational participation in most of the Pacific countries and as a result a number of women have and are continuing to access positions of leadership in both private and public sectors. There are however, gender inequality in enrolments, at all levels in all the project countries, with disparities comparatively much lower in Samoa and Fiji.³⁸ The disparity is

partly attributed to the unequal number of males and females in the population as well as the issue of accessibility, affordability, and the socio-cultural factors such as preferences of boys over girls to attend school in situations of limited resources. For example in Kiribati, figures reveal that there are 37 junior/senior secondary high schools with an enrolment of 10,443 pupils as compared to 90 primary schools totalling 14,023 students. Tertiary education is provided by only 2 major providers, with students pursuing further specialised tertiary education outside of Kiribati mostly in Fiji, Australia and New Zealand.

More females than males have never been to school in most Pacific Island countries. The largest numbers of people without education are those living in rural areas. Lack of education is high in Solomon Islands, Vanuatu and Kiribati and low in Fiji and Samoa. In Kiribati, Vanuatu and Solomon Islands there is significant gender inequality in educational participation with female enrolments tending to decline after the first few years of primary school and strong disparities evident in secondary and tertiary enrolments.

Overall at the primary level, figures show a disparity in female/male enrolment with a higher female enrolment both in terms of proportion and absolute numbers. These figures do not reflect retention and completion rates and therefore are not true indicators of overall education participation rates at the primary level. This is true for all levels of education and there is therefore the need for further data collation and analysis to reflect the accurate situation.

Table 8.1 *Proportion of the total population with "primary education" as the highest level of education,*

Country/Year	Urban		Rural	
	Male	Female	Male	Female
Fiji (1996)	24.0	24.0	35.5	34.5
Kiribati (2000)	54.2	54.0	67.5	65.7
Samoa (2001)	25.2	24.9	34.0	32.4
Solomon Islands (1999)	42.2	45.8	51.7	47.8
Vanuatu (1999)	55.7	60.5	70.0	68.8

Source: SPC Pacific Youth Database 2003

³⁶ Labouring under the Law: A Feminist critique of employment legislation affecting women in Fiji by Atu Emberson-Bain and Claire Slatter, September 1993.

³⁷ 2000 Kiribati Census, Bureau of Statistics

³⁸ Triennial Conference of the Pacific Women and Pacific Ministerial Meeting on Women 2005, Volume 2. Technical

The review report of the PPA noted that there does not appear to be significant sex bias in the

Papers. Noumea, New Caledonia: Secretariat of the Pacific Community

field of study. This however needs to be further researched because anecdotal evidence shows that there is a high concentration of women workers in sectors that are considered traditionally female areas and are closely related to their reproductive roles such as nursing and teaching. Within each sector figures reveal that women are highly concentrated at the lower rung of the hierarchy. Women also receive fewer scholarships than men, particularly in countries where there are fewer girls than boys completing secondary schools.

Table 8.2 *Proportion of the total population with tertiary education*

Country/Year	Urban		Rural	
	Male	Female	Male	Female
Fiji (1996)	13.2	10.1	3.8	3.0
Kiribati (2000)	1.7	1.0	0.5	0.3
Samoa (2001)	15.2	13.1	5.7	4.5
Solomon Islands (1999)	15.9	9.0	3.1	1.1
Vanuatu (1999)	4.0	2.5	0.3	0.2

Source: SPC Pacific Youth Database 2003

Although there is no significant difference between females and males in secondary education there is however sex disparity in tertiary education with fewer female graduates as compared to males for all countries. This situation is critical in Solomon Islands, followed closely by Vanuatu, Fiji and Samoa. The ethnic conflict within the Solomon Islands is likely to be a contributing factor.

Table 8.3 *Proportion of the total population with no education*

Country/Year	Urban		Rural	
	Male	Female	Male	Female
Fiji (1996)	2.7	4.7	3.5	5.5
Kiribati (2000)	5.7	6.9	6.9	8.6
Samoa (2001)	0.2	0.7	1.4	1.2
Solomon Islands (1999)	12.3	22.0	31.7	43.5
Vanuatu (1999)	6.2	7.0	17.1	21.0

Source: SPC Pacific Youth Database 2003

Table 8.3 above shows that the largest number of people without education live in rural areas and that more females than males have never been to school. There is considerable variation between countries. Lack of education and presumed illiteracy is high in Solomon Islands and Vanuatu and low in Fiji, Kiribati and Samoa, and is so much higher for females than males.

The foregoing reveals that women and young girls are still greatly disadvantaged when accessing quality education in all the selected Pacific Island countries. Consequently with the existing social protection mostly in the form of provident funds, which is based on fixed rates of contribution, calculated on the basis of salaries received, women therefore will continue to be disadvantaged as most of them are concentrated in sectors and/or levels that are lowly paid. With figures showing a high proportion of women with no education and/or literacy it follows that the majority of these women will be employed either in the rural and urban informal sectors, or as unpaid family workers with no form of social security available to them.

There is definite need for increased adult education and raising awareness in the project countries on gender inequality and the issues that arise as a consequence. Most of the countries studied, with the exception of Samoa,³⁹ are patrilineal societies and gender sensitivity training⁴⁰ carried out in the region shows the lack of awareness, amongst policy makers in every sector, and societies as a whole, on the issues of gender equality.

8.9 Institutional mechanisms, policies, legislation and programmes in support of gender equality⁴¹

A brief discussion on the current status of the institutional mechanisms, policies, legislation and programmes in support of gender equality in Fiji and Samoa is necessary to assess the enabling environment, without which the commitment to gender equality by governments, NGOs and the major development partners, including ILO, will be difficult to achieve. The project countries share similar historical, socio-economic, cultural and political backgrounds and therefore the issues faced in these two countries can be extrapolated for the five project countries.

³⁹ The Samoa traditional system is based on the Matai System where the heir can either be a son or a daughter of the descendants of the title holder. Not all *matas* however have access to *pule* or authority over family land. *Matai* are ranked according to seniority and only those with senior authority hold this right.

⁴⁰ The Pacific Women's Bureau undertakes as part of its programme gender sensitivity training and training of trainers around the region.

⁴¹ Triennial Conference of the Pacific Women and Pacific Ministerial Meeting on Women 2005, Volume 2. Technical Papers. Noumea, New Caledonia: Secretariat of the Pacific Community

Fiji and Samoa have endorsed the Pacific Platform for Action (PPA) with one of its strategic objectives *to develop and strengthen appropriate mechanisms that will continue to enhance the advancement of women at all levels*. The platform calls for strengthening of NWMs through the allocation of additional financial and human resources and integrating gender equality in decision-making processes. Institutional mechanisms for the advancement for women is one of the 12 critical areas of concern of the Beijing Platform for Action. Strategic objective (H) with regard to this area emphasises the need to integrate gender in the public policies, legislation, programmes and projects, and provision of gender disaggregated statistical data and information for planning and evaluation. The 2000 MDGs emphasises gender equality throughout the document. It is however silent on the economic empowerment of women and has been criticised as adopting a minimalist approach on the issues of gender and development.

Fiji has consistently made international, regional and national commitments to gender equality. It has an established Ministry for Women and adopted a national plan for action in 1999. There are now discussions to review the action plan. The Ministry has a large number of staff but is considered bottom-heavy with a lack of capacity to analyse sectoral policies and legislation, including the employment legislation. Since 2000, the office has experienced a high staff turnover and has to an extent undermined the capacity within the Ministry. It has an operating budget but its development budget is very small and is mostly reliant on donor funding to carry out development activities including research. To-date most of the programmes undertaken by the Ministry are focused on community service projects. There is a need to focus on policies and legislative reforms, and gender mainstreaming, being core mandates of government. An important area that the Ministry can focus on is the issue of gender equality in the workplaces. This change in focus will however, require a change in the structure of the Ministry and notably an increase in the capacity of staff to carry out policy and legislative reviews.

Promotion of gender equality in Fiji has benefited from a very strong active role played by the NGOs which has provided the much needed impetus of placing the gender issues in the national agenda. Their work in the areas of law reform and legal literacy, violence against women

and women in leadership are notable achievements. Further efforts are required to maintain linkages and networking of the national women machinery with women's NGOs.

Although Fiji has made significant legislative strides in comparison to other Pacific countries in the areas of criminal, evidence and family law as well as the employment bill, a lot still needs to be done. The 1997 constitution recognises equal rights of citizenship for both men and women and equal status of spouses of Fiji citizens, whether male or female. This overturns the former 1990 constitution discriminatory provision against female Fiji citizens. Furthermore the 1997 constitution contains a comprehensive Bill of Rights that forbids unfair discrimination on the basis of gender and allows for any laws or administrative action based on gender, *inter alia*, to be challenged or cited as discriminatory. The constitution also allows for affirmative action programmes of women.

Political stability and/or instability have had a profound impact on the performance of the national women's machineries. Fiji's political events have proven a setback for the promotion of gender equality both in terms of resources and being progressive. Domestic violence, as a consequence, as recently reported in the media has increased substantively as a result of a combination of factors. Ethnic issues have been the preoccupations of the day and it is to the detriment of innovative policies on gender equality or economic growth that would result in income and employment creation for both men and women.

As noted the national women's machinery in Fiji has been able to achieve some results in raising awareness on women's issues and legislative reforms. The Ministry has been active at the programme delivery level but has been less effective in terms of driving the policy and mainstreaming gender at the legislative and political levels. This is imperative if programmes such as the social security project supported by ILO are to have a sustainable impact and a strong technical national women's machinery is a pre-requisite to promoting and achieving gender equality in all sectors.

Samoa has adhered to the international, regional and national commitments and it has been highly successful in promoting women to decision making levels, demonstrated in the number of

women that have attained higher tertiary qualifications, and the high number of women that are in executive positions as shown in the research⁴² undertaken in Samoa. The Ministry of Women has been successful in raising the awareness on the need for greater gender equality in Samoa and has formed a sound network with non-government organisations. The Ministry however, also needs to consider a redirection of its focus, and similar to the Fiji's national women's machinery, to focus on the legislative and policy reforms particularly with respect to sectoral policies. There is also a need to build the capacities of the Ministry to undertake such programmes within the Ministry.

It is essential to establish clear policy on women, particularly in the areas of mainstreaming. Numerous activities have been undertaken to promote gender equality and raising gender issues such as domestic violence. Other areas that need immediate attention are the review of laws. The Samoa Attorney General in the year 2000 noted *that there was no deliberate discrimination against women in Samoa however the gap identified calls for the review of outdated legislation inherited from its colonial past. This includes laws such as specific issues as sexual harassment and inequalities in the work place, e.g. the outdated Labour and Employment Act of 1972.*⁴³ It is unlikely that the Ministry is able to tackle this on its own due to the lack of in-house technical expertise. This is an area that ILO can provide the much needed technical support in the future to promote the review of the legislation.

Political stability and continuity in Samoa has played a pivotal role in the smooth transition towards reform and the stable role of the Ministry for Women. It can be argued however, that this has prevented the much-needed change at the policy and decision-making level. There is need to further advocate and implement the key areas identified in the Department of Women's policy.

Similar to Fiji, the Samoan Constitution not only forbids discrimination on the basis of sex but also states that *nothing shall prevent the making of any provision for the protection or advancement of women* (Article 15, Section 3 (b)).

The constitutions of both countries, and the various commitments made at the international, regional and national levels provide the platforms for promoting and achieving gender equality. However, there are still wide gaps experienced between the stated policies and implementation of these policies. This situation applies to all of project countries. Despite national women machineries being established, the governments have lacked the political will to give it the real means to influence policies.

The lack of capacities within the Ministries in both countries is shown in the lack of integration with other government departments and ministries. Both countries have undergone public sector reforms and this has had a detrimental impact on the efforts of promoting gender equality in the two countries. Furthermore this also has had a direct impact of weakening the national women's machineries in terms of resources both financial and human.

The lack of sex-disaggregated data is a major drawback in the work to advance gender equality. It is found that no Pacific National Statistics Offices (NSOs) have a gender statistician in place and there are no dedicated gender sections to assess and analyse the official census statistics collated. Comparisons between countries of gender statistics are limited in several ways. Firstly they convey no information about the socio-economic or cultural contexts, or regional variation within countries. They tell us 'what' but not 'why'. More qualitative, as compared to quantitative data and information is required to understand and analyse the underlying conditions of the gender inequality experienced by both women and men.

8.10 Equality issues in social protection and social security

In many developed countries, progress has been made in eliminating direct and indirect discrimination in the access to social security and social protection although much remains to be done. For the project countries in the Pacific a number of major challenges exist in the implementation of social security and protection schemes. This includes extending social security to those currently not covered under the existing schemes, the majority of whom are concentrated in the informal economy. The lack of awareness, of social security and how it functions, at the policy level and lack of political will has limited

⁴² Ministry of Women. 2002. Directory of Women of Samoa.

⁴³ Triennial Conference of the Pacific Women and Pacific Ministerial Meeting on Women 2005, Volume 2. Technical Papers. Noumea, New Caledonia: Secretariat of the Pacific Community

the introduction of a variety of social security schemes that would benefit the public at large, and contribute towards the eradication of poverty. Equal treatment in social protection, similar to programmes and activities implemented in any other sectors, assumes that men and women are in the same employment situations regardless of sex. More often than not this is not the case with conditions of employment different for both men and women. Gender discrimination exists in the labour market and applying the formal principle of equality in such situations gives rise to further inequality when social security benefits and contributions are based on employment history, and contributions made. This is demonstrated in the formal economy survey undertaken for the five project countries, and with the exception of Samoa, the remaining four countries show a disproportionately much higher proportion of males than females employed in the formal sector. Furthermore employment histories of women are often characterised by broken periods of employment having to take time off for reproductive responsibilities including looking after the children, the sick and elderly as well as for periods of maternity leave. These periods of *unemployment* are taken either with reduced or without remuneration, with the overall impact of reduced lump sum payments which is the case under the provident fund individual savings schemes. Although the sample survey undertaken was biased in favour of the males, the result, it can be argued based on other developed country experiences, is representative of the whole formal economy.

Therefore, measures for promoting equality in social security need to be developed based on an accurate assessment of the needs of men and women, and a thorough assessment of the impact of social protection and social security systems on their positions.

While women have increasingly entered the labour market this has not led to improved coverage for women. Additionally, their employment status continues to be characterised by lower wages, mediocre career prospects and precarious forms of employment. At the same time family situations have become more diversified and continue to change, which in the majority of cases, women continue to be mainly responsible for looking after the household and the family, and producing goods and services for family consumption; for example in subsistence agriculture or by working as unpaid family

workers in enterprises. Even where some benefits are provided such as family allowances and child care subsidies, these are often less generous than those based on paid employment, due to the lack of financial resources provided by the State. In the case of Fiji, for example, for a long time the family allowance was ‘pegged’ at FJD 15.00 per month and was only increased to FJD 100.00 where it has remained since the year 2000. This is also reflected in the national budgetary allocations provided to the social sectors as compared to the economic sectors.

Research shows that in all the other Pacific Island project countries studied, the different work patterns that exist between women and men are not recognised and except in the case of Fiji family allowances or child care subsidies are not provided for. Even in the case of Fiji the family allowance is not a deliberate response to the different work patterns but as part of the scheme inherited from its colonial past. There is therefore the need to review existing social assistance provisions and the fundamental criteria on which they were originally designed in view of the changing socio-economic and cultural environment.

Current social security systems are based on the traditional notion of *nuclear families* with men as *head* of households and the *breadwinner* in the families. Provident funds within the Pacific operate on similar assumptions where women are seen as the dependents of men and as a consequence benefits received are assessed on the premise of *derived rights* rather than *direct rights*. Women accessing funds from the provident funds for contingencies often undergo stringent criteria such as requirements for additional documentation. In the case of Fiji, women are able to partially withdraw their contributions on marriage. This facility is not available to men and it can be assumed that the rationale is based on the premise that women on marriage have *inherited* family responsibilities and the withdrawal is to offset some of these costs.

There are also an increasing numbers of *de-facto* or *de-jure* female-headed households due to increase in divorce rates, single-parent families and where male heads of the household are required to work overseas. An example of this is the increasing number of males working on foreign fishing vessels in the case of I-Kiribati

and Ni-Vanuatu⁴⁴ or those who have migrated to the urban centres or overseas for better job opportunities. Women having to maintain such households are more often very vulnerable to poverty. There is therefore a definite need to assess such situations and for governments to put in place measures to help mitigate against these factors.

Table 8.4 *Life expectancy for the 5 social security project's 5 PICs*

Country	Population	Population (%)		Life Expectancy (yrs)	
		Male	Female	Male	Female
Fiji	810, 421	51%	49%	64.5	68.7
Kiribati	84, 494	45%	55%	59	65
Samoa	176, 710	52%	48%	63.5	65.5
Solomon Islands	409, 042	51.70%	48.30%	64	66
Vanuatu	207, 586	51.25%	48.75%	65.6	69

Table 8.4 shows that in all the Pacific countries studied women are living longer than men. These demographic changes are factors for consideration and when social security schemes are linked to earnings, women who raise children are bound to be worse off economically because of the interruptions in their market work. On average, for the five countries studied, women live longer than men by 3.5 years, with women in Kiribati living longer by 6 years. There is however, little change in the trend in life expectancy, (Schoeffel (2004)), and it can be assumed that there has not been much change in the quality and coverage of health services. Currently available health statistics do not adequately disaggregate rural and urban data.⁴⁵ Health resources tend to be concentrated on curative services provided at hospitals, but as people live longer and as the way of life changes, more people are contacting non-infectious diseases such as of the heart, kidneys and diabetes. The priority given to health care insurance in the various country surveys is reflective of this status quo. In countries such as Solomon Islands and Kiribati, which have the highest rates of maternal mortality and the lowest proportion of the supervised deliveries, and where

comparison between the rural and urban women needs to be made, the low ranking given to maternity schemes is not surprising. As noted the surveys sample was biased towards males and is reflected in the kind of data collected. There is need for further surveys to identify the specific needs of women which can only be adequately addressed with gender technical support of the sub-regional office and local specialists.

Maternity protection for example, is available to public sector workers and to the private sector under collective bargaining. These are however limited as in the case of Fiji where for the first three confinements a female civil servant enjoys the 84 days maternity leave with full pay and thereafter receives an allowance of FJD 5.00 per day. This is common in the project countries and is discriminatory to women. The proposed 2004 Fiji Employment Bill now under discussion proposes that for the fourth confinement and thereafter an increase of allowance to FJD 7.50 per day. This is discriminatory towards women where the benefits are based on contributions and length of tenure of employment and there are no compensations in the form of children or family allowances. Certain categories of women are (implicitly or explicitly) excluded from the benefits of maternity leave including those classified as casual workers. The Vanuatu Employment Act provides provision for maternity protection for a total of 24 weeks (12 weeks prior to and 12 weeks after delivery). Compliance and conformity to the Employment Act could be a subject of further study as the extent of adherence by private sector employers is unknown.

8.11 Survey of workers in the informal economy and the formal employment sector⁴⁶

The project aims to improve the coverage and efficiency of the social security system in five selected countries in the Pacific sub-region by developing and implementing national action plans for the extension and improved governance of the social security systems and by conducting joint capacity building activities at the sub-regional level. Based on a gender analysis and a gender needs assessment of social security, the project will develop social security policy which is more responsive to gender-specific needs and thus promotes gender equality.

⁴⁴ Ni-Vanuatu is the name for indigenous people.

⁴⁵ Pacific Human Development Report, UNDP 1999

⁴⁶ For extensive background information, survey and findings on the five project countries studied, the specific country reports are to be read in conjunction with this section.

At the end of the project, the Governments and social security organisations will have formulated a comprehensive country program on social security in the form of tripartite national action plans based on the needs assessment survey and the financial and gender analyses, and taken steps for their implementation.

As a first step for the development of the national action plans on social security, a special needs assessment survey – the coverage mapping survey – was carried out. The survey focused on men and women who are excluded from the current system, i.e. those who work for small employers, the informal economy and home-based workers. In addition to basic characteristics (e.g. income level and pattern, family composition, health condition etc.) of the excluded people, the respondents were asked to prioritise social security needs as well as their capacity and willingness to participate in some form of risk pooling arrangement, including micro-insurance schemes.

The purpose of the surveys was to provide a basis for the formulation of policy to extend social security coverage to the excluded population; in particular, workers in the informal economy where the lack of social security is largely concentrated.

In the context of globalization, there has been increasing informalisation of employment especially in developing countries. Contrary to earlier anticipation that the formal employment sector would absorb most workers as a result of economic growth and development, the informal economy has been growing rapidly and this trend is likely to continue in the foreseeable future. Hence, there is an urgent need for focused interventions in providing social security for workers in the informal economy.

The formal economy

The formal employment sector represents the more administratively visible part of the economy and society, namely the public and private corporate sector, and comprises enterprises and the professional self-employed that have been accorded legal status and are regarded as legal entities.

This legal status is accorded through registration by professional associations, Ministry of Labour and the Ministry of Trade and Industry or their

equivalents in each country. As legal entities, the enterprises are subject to labour laws administered by Ministry of Labour and to the ILO conventions that have been ratified by the respective countries. The formal sector in the countries in the study ranges from about 25 to 40 percent of the economically active labour force. Of this it is estimated that approximately 37 percent are women. With the exception of Fiji, the public sector is the major employer within the countries of study.

The employment sectors in Pacific countries are measured by the national statistics departments in a National Population Census conducted every 5 or 10 years. Modifications through annual statistical returns from employers or by targeted labour market surveys of selected sectors of the economy are not common in Pacific countries. As a result the total dimension of the labour force is not necessarily complete in most countries. The basic classification of the formal sector is the *Legal Entity*, described as: - *Legal status of a company/unit of economic activity based on the requirement to register with the appropriate government agencies; usually the Ministry of Labour and the provident fund.*

The aim of the sample survey of workers in the formal employment sector was to obtain some indicative parameters about the workers and their priority social security needs, who provides or will provide for these basic social security needs, gaps in coverage and their potential to contribute to voluntary schemes. The survey also recorded some of the demographic and other details about the workers including their income patterns, work category, insurance and micro finance and membership of organisations.

The employment status of the sample was almost completely composed of full-time employees which is expected for the formal employment sector and validates one of the key definitions and characteristics of formal employment sector employment.

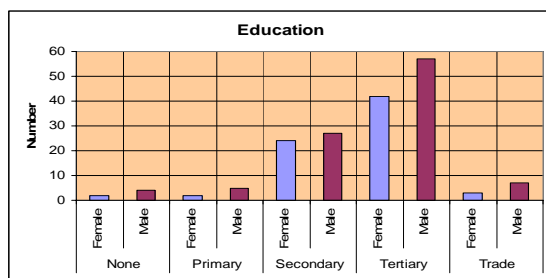
8.11.4 Solomon Islands formal employment survey

SINPF membership in 2003 was about 44,000 active members. The 1998 labour market formal sector surveys showed about 24 per cent of formal workers were public servants. Data from the 1999 census shows that 23 percent of the adult population was in paid employment.

Agriculture, forestry and fishing provide the most employment, followed by manufacturing, wholesale/retail and public administration. The private sector provided most employment, 70 percent in 1998. In the public sector, the central government is the largest employer, 24 percent of total formal employment in 1998. Of those in formal employment in 1999, more than two-thirds were men. Data from the annual employment surveys show that female employment increased by 6.5 percent between 1994 and 1998 and 8.4 percent for males in the same period. Total formal employment rose by 8 percent in the period 1994-1998, an average of two percent per year.

Of those in formal employment in 1999, more than two-thirds were men. Data from the annual employment surveys show that female employment increased by 6.5 percent between 1994 and 1998 and 8.4 percent for males in the same period. Total formal employment rose by 8 percent in the period 1994-1998, an average of two percent per year. The national provident fund contributions suggest that the employment situation may have almost returned to pre 1999 figures after the redundancy in 1999. The total sample of 173 was taken from the age groups between 15 and 60 years. The sample may have reached a close correlation with female employment, representing 42 per cent of the sample and 58 per cent for males.

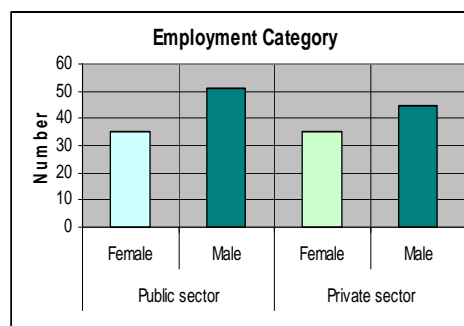
(i) Education



The highest education level represented by the sample was tertiary level followed by secondary level. This contrasts markedly with the informal survey where the bulk of the respondents had only primary level education and there were some cases which had no formal education. This education level may be biased by the high proportion of public sector employees in Solomon Islands where they represent around 30 per cent of the formal sector workers. The education levels may reflect the public service entrance.

(ii) Employment

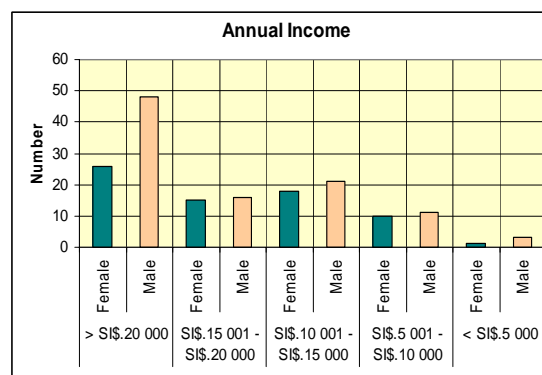
The sample identified 58 per cent of respondents as being employed by the public sector, and in the absence of accurate data this appears to be slightly higher than expected based on the labour market survey in 1998 where about 30 per cent of formal workers were employed by the government. The deviation could be explained by the better access to public sector institutions and



diligence in voluntary surveys.

(iii) Annual income range

The annual income groupings, whilst suitable for the lower incomes in the informal economy produced some bunching at the higher levels where 44 per cent of the sample were in this > SBD 20,000 range. About 41 per cent of the sample was in the SBD 10,000 to SBD 20,000 range. This reflects the higher income levels of the workers in the formal employment sector.



(iv) Social security

As expected the survey respondents were almost all provident fund members which suggests that compliance is relatively high and that the survey targeted the formal sector workers. The coverage provided for age retirement by SINPF is evident in the responses and it is presumed that the small responses for other benefit coverage may be from

employer or industry sponsored schemes. Responses received during the survey identified the three top social security needs as family health insurance followed closely by education and age retirement. Unemployment was also rated highly. As to who should contribute to social security schemes, employers and individuals were identified as well as the government. Forty five percent of the respondents indicated that they were willing to contribute with a further 34 per cent stating that they would be likely to contribute. In a situation similar to that in Samoa, a high percentage of respondents indicated that they were willing to contribute less than USD 5.00 per month. This limited ability to contribute would make it difficult to extend meaningful social security coverage.

(v) *Analysis*

Data from the annual employment surveys show that female employment increased by 6.5 percent between 1994 and 1998 and 8.4 percent for males in the same period. The overall total formal employment increased by 8 percent in the period 1994-1998, an average of two percent per year. Despite this, of all workers employed in formal employment in 1999, more than two-thirds were men. It is important to note that in 1999 the government carried out a redundancy exercise as part of the policy and structural reform programme. In such situations women are the first to suffer and because they are concentrated at the lower echelons holding clerical, and secretarial and junior positions they are usually the first to be made redundant. This can be inferred from the responses received for the employment category survey where the numbers of women relative to men are far less than men in the private and public sector. This is also a direct consequence of the level of education attained which was confirmed by the survey in both tertiary and secondary education where more men than women completed both levels of education. At the higher income levels, 44 per cent of the sample were in the > SBD 20,000 annual salary range which is heavily biased towards males. This holds true for every other income range identified in the survey. Overall, it must be noted that the ethnic tension in the Solomon Islands has taken a heavy toll on the efforts to promote gender equality in the country and the situation for women is far worse, with the NWMs lacking the resources (financial and human) to carry out their mandate.

8.12 The informal economy

The project undertook specific sample surveys of workers in the informal economy to obtain some indicative parameters about the workers and their priority social security needs; who provides or will provide for these basic social security needs, gaps in coverage and their potential to contribute to voluntary schemes.

The ILO concluded in the 1970s that the informal economy was both efficient and profitable and there emerged the view that it should be promoted as a strategy to tackle structural inequalities and to meet the basic needs of the poor. Continuing rural-urban migration and economic shocks caused by environmental conditions, conflict and poor governance reaffirmed the importance of the informal economy in terms of work and income generation.

The definition and classification of the informal economy is difficult in many countries because comprehensive data is often unavailable and informal economy studies are often limited to selected employment sectors. The broadest definition for the informal economy includes those workers who do not receive a regular income and have no contracted or enforceable employer/employee relationship. This usually includes a predominance of self-employed, casual and unpaid workers in family businesses and those not registered or subject to labour laws. Many enterprises in the informal economy may be registered with local authorities and finance regulators such as the Ministry of Finance or the taxation office, but have not been accorded legal status under the definition of legal entity by the Ministry of Labour, and have not been identified by the provident fund.

In most Pacific countries the bulk of the workforce is still employed in traditional agricultural occupations and most workers in the informal economy are in rural areas in the agricultural sector.

While the formal economy has a tendency to produce *jobless growth*, the informal economy continues to absorb the bulk of the job seekers who annually enter the labour market. These jobs are created with little capital and without any subsidy from the state. These informal enterprises often rely on indigenous resources, including recycled materials, and produce predominantly for

local markets. The entrepreneurs mobilise their own financial resources via family networks, savings clubs and rotating credit systems. Accommodation for newcomers is provided and training given on the job. Many workers in the informal economy also maintain strong ties with their places of origin, and often foster plans to return. Urban to rural remittances, particularly from the capital cities in Pacific countries and from expatriates working overseas, occur on a very large scale and for many village households this capital flow has even become the major source of household income.

Apart from generating work and income for a large proportion of the population, in most cases more than 60 per cent, of total employment, the informal economy is also a major supplier and distributor of basic services and needs such as water, food, clothes and shelter. In urban areas the self-built housing sector meets a substantial amount of housing needs. Without the informal sector the majority of the urban population would have difficulty surviving in the city.

Options for classification can include degree of employment mobility and assets, geographical location or broad employment activities. In the case of most Pacific Island countries the broad employment category appears to be an efficient classification parameter because of the limited range of occupations and the domination of the agricultural sector in employment of the population.

In the absence of any formal classification of the informal economy a reasonable occupation based classification is listed below. This classification was used to design an informal economy survey that would provide a close correlation with the structure of the informal economy and at the same time be able to be randomised within that structure.

8.12.1 Informal economy classification

Predominantly Rural

1. Farm and farm related activities comprising subsistence farmers, small landholders in specialised or mixed farming, landless farm workers and unpaid family members.

2. Fishing, where this is the major income source. It is recognised that in some households, income and subsistence will be derived by a combination of fishing and farming.

Mostly rural some urban

3. Home workers including craft workers, mat weaving, garment making and housemaids.

4. Self employed workers including micro-entrepreneurs, small traders and miscellaneous enterprises.

Mostly Urban

5. Transport industry workers including taxi drivers, small repairers and other small transport passenger and freight services.

8.12.2 Informal economy priority needs survey

For each of the project countries a sample survey was undertaken. The aim of the sample survey of workers in the informal economy was to obtain some indicative parameters about the workers and their priority social security needs, who provides or will provide for these basic social security needs, gaps in coverage and their potential to contribute to voluntary schemes. The survey also recorded some of the demographic and other details about the workers, including their income patterns, work category, insurance and micro finance and membership of organisations.

8.12.6 The informal economy in Solomon Islands⁴⁷

Based on an initial research undertaken by the project a summary of the social insurance and social assistance programmes in place are as follows:

Social insurance

- *Old age pensions* – not available, with lump sum payment by provident fund.
- *Disability and survivor benefits* – this is part of provident fund and is available only to the formal sector
- *Work injury insurances* – is available through private insurance schemes
- *Unemployment insurance* – part of public sector and employment conditions and is available only in the formal sector.

Social assistance

- *Programs for the disabled* – only trade union, and private and family schemes
- *Medical rehabilitation* – limited to critical

⁴⁷ For further details refer to the Solomon Islands – Informal Economy & Formal Employment Sector Survey Report, ILO Social Security in Fiji, Samoa, Kiribati, Solomon Island and Vanuatu, January 2004

- cases evacuated to Honiara or overseas
- *Assistance to disaster victims* – very ad-hoc
- *Subsidised medical treatment* – part of the national health care policy

The balance between the sexes in the survey was biased towards males, at 67 per cent as compared to women at 33 per cent because of the type of industries chosen. Many of the traditional farmers, fishermen and transport workers were males. The predominant work areas for females in unpaid family care, family business, and home workers were less accessible to the surveyors. The sample correlates reasonably closely to the 1999 population census where 65 per cent of the workforce was male and 35 percent female.

The weighted average of dependents would be closer to 6 per family. This compares favourably with the 1999 population census where the average family size across the Solomon Islands was 6.3. The number of single parents was 21 in the sample of 500, which represents about 4.25 per cent of the sample. Given the bias of the sample to males this is not likely to represent the true situation of single parent families the proportion of female-headed households was not calculated in the 1999 population census.

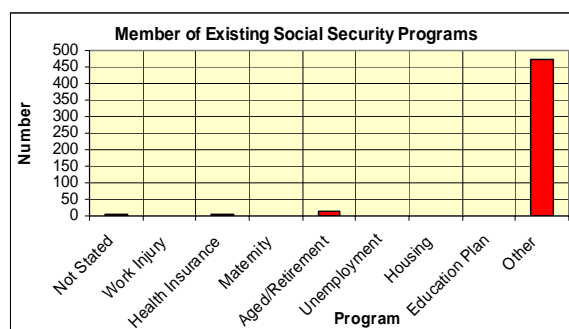
The highest education attainments of the workers in the sample in terms of absolute numbers in the sample males represent the highest numbers in all categories of education. However when considered as a percentage of each sex it was seen that males retain the highest percentage in all levels except for secondary education where women have a much higher percentage of secondary education than men.

The employment status of the sample is dominated by self employment and unpaid workers with self-employment dominated by males workers. The unpaid workers status dominated by men can be attributed to the survey sample biased in favour of males.

(i) *Social security needs and priorities*

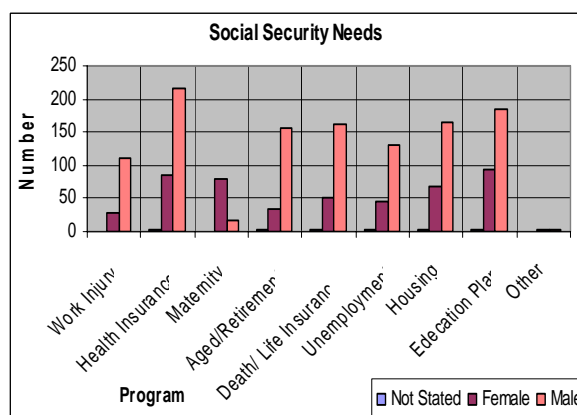
Respondents were asked about existing membership in social security programs. The results confirms the absence of any formal social security programs in the informal economy but the almost universal response of “other” suggests

that people see traditional systems as a social security scheme. In a later question in relation to



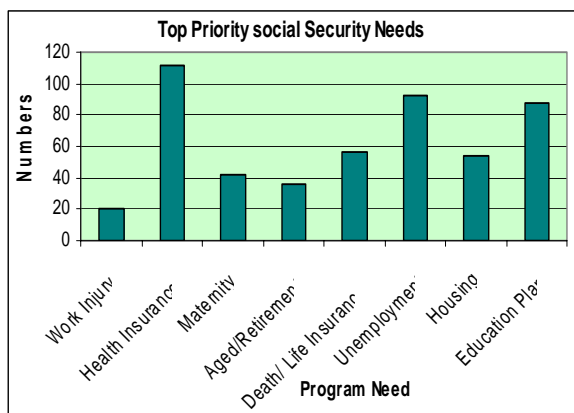
membership of other organisations, the only category that achieved a reasonable result was membership of credit unions.

Respondents were asked to identify their social security needs. In this case multiple needs were accepted and from a sample of 500 people 1,496 needs were identified. It is interesting to note that health insurance was easily the most common need by males and the second highest for females after education plan which was also the second

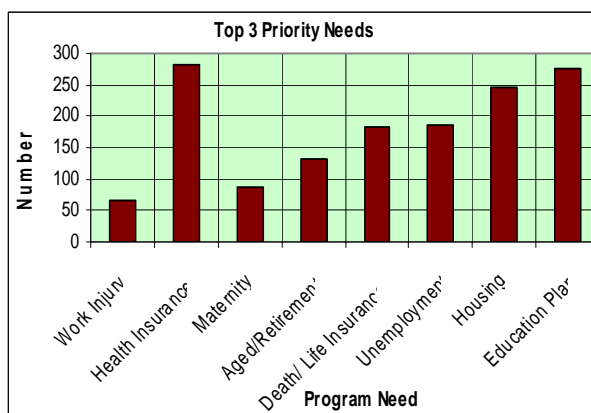


highest need for males. This may reflect the low literacy rate and low school attendance in the Solomon Islands.

Respondents were then asked to nominate these needs in priority order and the following charts show the highest priority needs. The chart below shows that health insurance is the most popular need with unemployment and education programs also rated highly. The low response to age/retirement programs may be reflected in the age groups i.e. working age and younger people.



By grouping the top 3 priority needs identified by the respondents the priorities are somewhat moderated but health insurance remains the most critical need. This was followed by high priorities in housing and education and at a lower priority were life insurance and unemployment programs. Maternity, work injury and retirement programs were the lowest priority, although given that females represented only about one third of the sample this rating may be skewed.



(ii) Analysis

Many of the traditional farmers, fishermen and transport workers were males. The predominant work areas for females in unpaid family care, market sales, family business and home workers conforming world-wide trend.

Solomon Islands, with close similarity to Kiribati, where both countries have the highest rates of maternal mortality and the lowest proportion of the supervised deliveries and the low ranking given to maternity schemes in the survey is difficult to explain. As noted previously, the survey sample was biased towards males and there is need for further surveys to identify the specific needs of women. Alternatively this could

be the result of a lack of understanding of the social security systems and how they operate. It must however be noted that overall the ranking for maternity protection was not as low as compared to the other Pacific Island countries and is reflective of the true situation experienced by women in the lack of accessibility to quality maternity facilities.

As noted earlier the ethnic tension in the Solomon Islands has had a detrimental impact on the work of progressing gender equality at the policy and implementation levels.

8.13 Conclusions and recommendations

It is important to underline that the status of women in the Pacific and the conditions of their lives have been shaped by a broader range of forces, notably their gender, ethnicity and social class, and the broader social, political and economic environment. Similarly, the legal status of women, in particular their position in respect of employment legislation, is crucially influenced by such factors.

This report begins with the premise that women are greatly disadvantaged both in the formal and informal economy. As a result they are more likely to be excluded in greater numbers as compared to men from social protection or in cases where these are available, such as social assistance, these are often very insignificant. These conditions are the product of limited economic growth and the broader social, political and economic environment. Specific gender studies need to be carried out to determine the linkages between these factors and the marginalised status of women in the Pacific Island countries.

For all five project countries the results of the sample surveys conducted confirm the absence of any formal social security programs in the informal economy. Furthermore the almost universal response of *other* suggests that people see traditional and family-based systems as social security schemes. Credit unions and church membership also produced significantly high result. In the case of Samoa when asked how they made ends meet when they had little or no income, the majority identified gifts and remittances from family. Remittances in some of these Pacific Island countries including Samoa, Fiji, and to some extent Kiribati followed by

Vanuatu have become a major source of foreign exchange. Evidence seems to suggest that these informal social security mechanisms can be efficient in ensuring a minimum level of standard of living and survival. These transfers have shown that they serve to act as insurance against risk mitigation, income shortfalls, help during sickness and support for the elderly. Whilst people would still argue that these traditional support systems are intact, evidence shows that this is not the case as society becomes more monetised. Initially, the link to the place of origin may be still strong as first generation migrants move overseas. This however, is unlikely to continue with successive generations. Furthermore in adverse situations reliance on such traditional systems are not guaranteed.

More importantly from a gender perspective, there is an inherent bias in the reliance on such informal systems of social security provisions. In all the Pacific Island countries studied, which are similar to other developing countries, the burden of *other* or social security provisioning by extended families falls heavily and disproportionately on women, particularly in the case of care for elderly and children. This requires external intervention to either support or replace these informal mechanisms. Specific research is required to assess the magnitude of such remittances and who is largely responsible for such remittances. The research also must disaggregate data by sex and determine the impact that remittances have in meeting the contingencies that arise within families and society; and to make recommendations for the type of schemes and the support that can be provided by government and non-government organisations.

For all the project countries studied the main social insurance benefits available in the formal sector include:

- **Disability and survivors benefits** – through the national provident fund and are only available to workers in the formal sector. Provisions are limited in that the lump sum payments do not cover beneficiaries for the rest of their lives;
- **Work injury insurance** - available through employers and private insurance schemes. Currently this is on the basis of employer's liability and compliance, and private insurance compliance is questionable.
- **Maternity benefits** - available to the public sector and in certain situations it is part of

the employment conditions. Under collective bargaining these are available to the private sector.

- **Old age pensions** - through the provident fund some pensions are paid to those with reasonably large balances. Universal pensions, are paid to people over 65 years in the case of Samoa, and Kiribati for people over 70 years old. In the case of Fiji a voluntary pension option is available from the provident fund balance but is utilised only by those with large retirement balances. In Vanuatu and Solomon Islands old age pensions are not available with lump sum payments only paid by the provident fund.

Social insurance is social security financed by contributions and is based on the insurance principle where there is pooling of risks and spreading of benefits to cater for contingencies that may happen during ones life cycle. Social insurance includes social solidarity where there are transfers of contributions across income bands, and transfer of benefits in the case of health insurance where the fit and young effectively support the sick and aged. Contributions may be earnings related or based on a flat-rate. Under statutory schemes contributions from employees are matched by an obligatory contribution from employers or the state. For developed countries this is generally the form of social security implemented. This is not the case for the five Pacific countries studied where there is no social insurance in place. The provident funds operate as a *de-facto* social security system but fall far short of the objectives of a social insurance system. Social protection is limited to the formal sector workers because the premium is often beyond the reach of those employed in the informal sector. Alternatively the irregularity of wages of those engaged in the informal economy would make continuous contribution impossible. Furthermore, such schemes, as found in the countries studied, are confined to the urban centres and whilst there is a growing informal economy they normally fall outside of this network. As noted it is this informal economy that is not usually covered by social security and *because it is heavily dominated by women* they are excluded from social protection. The question of financing is

beyond the scope of this report but various options can be explored⁴⁸.

The survey confirmed that home workers and casual labour are dominated by women in the five countries and there is a need for governments to find innovative ways to expand social security to informal workers. Measures for consideration, subject to further research, include:

- Removing legal restrictions on scheme membership,
- Improving advocacy and information dissemination about the schemes, and
- Promoting voluntary schemes.

On the latter a number of these schemes are already in operation in the Pacific Island countries such as VANWOODS in Vanuatu and WOSSED in Fiji. In such instances the government not only could provide the enabling environment for such organisations to operate but to provide specific support that is needed by these groups such as:

- Policy and legal support to allow for and promote the set up of simple insurance programmes which are attractive to self-help groups;
- Financial support in the form of access to credit facilities to start or improve economic activities, and to administer the social protection scheme; and
- Training and support services to enable women and men to organize and arrange for a social protection scheme which suits their specific needs.

Various forms and combinations of social assistance exists in the project countries such as family assistance, programmes for the disabled, family schemes, universal health care, assistance to disaster victims and medical rehabilitation. Some of these schemes such as assistance to disaster victims exist on an ad-hoc basis. In the case of medical rehabilitation these are limited to critical situations only from rural to the urban centres, but not inclusive of overseas treatment. Family assistance and assistance to the disabled are, wherever they are present, are often less generous than those based on paid employment, due to lack of financial resources.

Most of these social assistance benefits are premised on the notion of no intra-family inequalities. However studies have shown that inequalities within families exist including unequal access to resources within the families. Moreover it is often found that women in such situations, even with meagre resources, are more than likely to spend their financial resources on the family needs and children as compared to men, who have a tendency to spend these on social needs. Further studies need to be carried out to determine the extent of such practices.

There has been a significant growth of female headed households (including single-person households and single-parent families) due to higher rates of marital breakdown, divorce, increased longevity of women, and male emigration. Households maintained by women alone, whether temporarily or permanently, and especially those with young children, are more vulnerable to poverty. Preliminary finding of the sample survey of 1,500 for the proposed health insurance scheme⁴⁹ undertaken in Fiji showed that female-headed households have risen to 19 per cent as compared to 12 per cent recorded in the 1996 census. This is confirmed by the preliminary report on the 2005 Household and Income Expenditure Surveys (HIES) prepared by the Fiji National Statistics Office.

Proposed future social protection schemes also need to take into account the different work patterns between men and women, the demographic changes, and the changes in the structure of the labour markets.

ILO commitment to gender is based on the *decent work for all strategy*. An essential feature of the agenda is the entitlement to social protection for everyone, an objective which is still far from being achieved. The ILO however, can play an active role in promoting the ratification of the various relevant ILO Conventions for its member countries including the ILO Convention on Equal Remuneration (1995, 100), the Convention on Anti-Discrimination in Employment and Occupation (1958, 111), the Convention on Maternity Protection (2000, 183) and the Convention on Workers with Family Responsibilities (1981, 156). To date most of these Conventions have not been ratified by the project countries.

⁴⁸ Refer Maternity and Health Insurance studies – Social Security in the Pacific Island Countries.

⁴⁹ Survey report is available in the Fiji version of this publication or as a separate report.

Furthermore, the ILO Office for the South Pacific in Suva can play a proactive role in advocating and assisting the national women's groups in the project countries, in the review of legislation and policies to be consistent with ILO Conventions and mandate.

Evaluations need to be made to provide primary data on the effects and success of various social protection schemes that exist, and how they impact women and children. This is imperative before any future schemes are implemented

Specific gender analysis and planning is imperative for the implementation of future schemes. This should include an analysis of the needs of men and women, the division of labour

between men and women, the constraints and/or opportunities, particularly the discrimination experienced by women, directly and indirectly. It is also important to assess the capacities that exist to promote gender equality in the work places amongst the major stakeholders if gender equality in the workplace is to be achieved.

Although outside the scope of this chapter and the project *Subregional initiative on social security in Pacific Island countries*, it is however highly recommended that the ILO Office for the South Pacific in Suva strengthens its capacity on gender analysis and planning to ensure that gender is mainstreamed in all its programmes and projects so as to fulfil one of the basic ILO principles.



PART II

FEASIBILITY STUDIES

Chapter 9	Social Health Insurance: Principles
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Chapter 9 Social Health Insurance: Principles

9.1 Introduction

This chapter looks at social health insurance in two parts, *Policy Context* in the Pacific, with an overview to extend health benefits, (a social security contingency), to the populations of the region, given their common characteristics such as demography, the economy and current institutional set up for the delivery and financing of health care.

The second part contains some specific recommendations and outlines an implementation plan for moving forward in expanding social health insurance in Solomon Islands.

The aim of this chapter is to assist the government of Solomon Islands and key stakeholders to understand the issues relating to social assistance schemes and to develop specific proposals relative to Solomon Islands. The outcome responded to the specific requests raised by the stakeholders and outputs from social security workshops conducted by this project.

The recent WHO publication titled *Social Health Insurance - Selected Case Studies from Asia and the Pacific*⁵⁰ provides a general framework to the policy makers and international development partners. This publication answers the key policy considerations for implementing social health insurance, and provides a thorough review of various schemes that are currently operating or have previously been administered in a number of countries in the region. A good body of literature in this publication is highly relevant for the Pacific Island countries.

Health care financing systems that enable the entire population to be covered would, in general, include two main funding mechanisms: financing from general tax revenues, and through social health insurance. WHO, in their recent review stated that *Before universal coverage is reached in most countries, voluntary and social health insurance schemes have played an important role in expanding coverage. Of the main funding mechanisms, social health insurance as the main*

source of health care funding is gaining greater attention in developing countries.

Examples of this policy shift are even occurring among the developed world. The Economist has recently published an article on the financing of U.K. National Health Service noting that the idea of switching to social health insurance instead of relying just on general tax revenue had been pronounced by various stakeholders since 2002.⁵¹ Supplementing social insurance revenue with general tax is also a policy that many governments like France, Germany and Turkey resorted to in order to overcome the problem of the rising costs of health care.

In this part of the chapter, the issues specific to the Pacific Island countries are discussed. Financing of health care in each of the five countries under this review is classified as general-tax based. It will be argued in further sections that there are potential benefits to be had by introducing social health insurance as a secondary source of revenue in addition to general tax funding. It is not suggested that all of these countries should replace their general-tax based health systems with social health insurance. Given the characteristics of these countries on which we elaborate later, there is a need to investigate all financially feasible means of raising more revenue. It is our recommendation that all of these countries should ideally spend more on health to solve the looming health problems they will face in the next decades.

The health funds should also be used more effectively. Social health insurance based health systems generally speaking have a better score card in putting strategic purchasing arrangements in place; such as buying the best health care for the population instead of funding the health inputs such as hospital beds, doctors and drugs, which most general tax based systems have institutionalised and found difficult to change, once they became the status-quo mode of paying service providers.

Many transitional economies in Eastern Europe during the past decade and a half have converted

⁵⁰ World Health Organization March 2005 ISBN 92 9022 239 5.

⁵¹ "Financing health care-Searching for a miracle solution" Aug 18th 2005 from The Economist print edition.

to social health insurance and experimented with signing capitation based contracts with the primary health care physicians to improve doctors' earnings and encourage general practitioners to open practices in rural areas. It is possible for general tax based systems to engineer purchasing mechanisms, adopting incentive-based provider payment methods to improve service quality and contain costs. Such reform policies can be considered in conjunction with social health insurance implementation where the two financing methods can borrow from each other's best practice literature.

The ILO and WHO, as two international development partners, are collaboratively promoting the concept of social health insurance in developing countries and this review is consistent with this endeavour. In short, unless an alternative health financing reform is adopted, the Pacific Island countries face the risk of their health systems deteriorating over time. By taking the necessary action now, these health systems will avoid the looming funding shortages and decline in service quality. The conditions exist in most of the countries to embark upon alternative methods of health financing and will be discussed further in this report.

9.2 The policy context - readiness to implement health insurance

The relevant policy context for the health sector common in almost all Pacific Island countries including the five project countries, can be described as all having an *urgent need to reform health system delivery and financing to meet the growing demands of their populations*. The governments of the four and to a lesser degree Kiribati have acknowledged the need for this reform in various policy pronouncements as well as in their briefings and discussions with the author.

It was also identified in the informal economy survey conducted by this project, how the people in general perceived the need for improving public health services and that *health care* is one of the top priority contingencies for the role of the government to provide and finance as a core government responsibility. It may thus be fair to state that the national policy climates are ripe enough to implement change. This can vary in degree of effect in the delivery and financing of health services in each of these countries.

The ILO review focuses on social security related aspects of health financing reform. In particular, it examines whether social health insurance rather than private forms of pre-payment and savings-based mechanisms can be introduced in the project countries.

It is fair to say that such reform in isolation from the reform on health service delivery may have limited success. Furthermore, over reliance on national provident fund mechanisms may inadvertently cause an inclination towards extending benefits to the formal sector (or the relatively well-off), vis-à-vis the rest of the population living in the peripheral islands and village communities, economically considered as the informal sector (or relatively disadvantaged). The project preparation discussions concluded that starting from one feasible point of social security extension would be considered far superior than excluding the health contingency altogether. The assessment therefore focuses on starting with the formal sector first and gradually expanding health insurance coverage to the rest of the populations.

9.3 Common characteristics of the Pacific Island states

The Pacific Island states have common characteristics which should be taken into consideration for the design of the new health care financing and delivery system that the peoples of these nations desire. In summary:

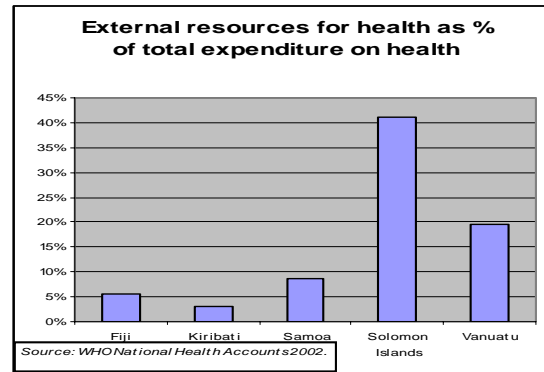
- Health is predominantly provided and financed by the state where ministries or Departments of Health fulfil a range of responsibilities such as owning and organizing service delivery units, staffing and recruitment and general policy implementation, which in its core includes public health functions such as infectious disease control, basic immunisations and maternal care, financing and implementation of health budgets provided by the state.
- The five project countries have national provident funds with a few decades of institutional memory. As the NPF predominantly caters for the formal sector, the reliance of the informal sector for the financing of health care will continue to be on the government.
- Public health financing is mainly through supply-side subsidies where the public-owned health delivery units receive an operating

budget appropriated through the budgetary process and often implemented by the Ministries of Health.

- The public health workforce is paid on a salaried basis. There are virtually no alternative provider payment methods implemented in any of the countries under this review such as capitation or case-based payment.
- User fees for health are becoming more common. While acute care at public inpatient care facilities is mostly free, many people in Fiji and Vanuatu consider a personal payment for health care as a natural mode of service obtainment. Private provision of services is thus growing due to increasing demand.
- All of the five project countries have traditional and community based forms of social protection. Mobilising a voluntary fund pooling arrangement for a community member at time of serious illness is common. This is mainly through faith based organizations, especially if the charitable contribution is considered essential for the community member to receive care outside their village/community, or even outside the country.
- Overseas referrals for tertiary care are common and all of these governments have bilateral arrangements with the host countries receiving these patients. It is also common that some people can have financial access through government funded overseas treatment programs, albeit the mechanisms for access to this benefit works less transparently.
- Disease patterns have shifted from communicable to non-communicable diseases across the Pacific. While malaria surveillance, disease control and treatment are considerably well-managed in most of the islands, the emergence of diabetes as a result of shifting dietary patterns is a serious concern. The long term repercussions of diabetes is to have more acute care beds for the treatment of advanced stage of diabetes mellitus treatment including surgical interventions (for amputations and cardiac surgery etc), and renal dialysis.

- Capital spending during the past decade for improving facilities has generally been limited. Primary level facilities and most hospitals look run-down. A significant portion of bi-lateral aid from donors is spent on improving the facilities.

Figure 9.1 Donor funding for health



Donor support is an important source of finance for most of these countries such as the Solomon Islands and Vanuatu, and to a lesser degree for Fiji and Samoa. (Figure 9.1). It is also common to engage overseas trained doctors and surgeons to work in tertiary referral hospitals, where salary payments for them are sourced from the donors. While donor (external) funded health care of Kiribati looks a paltry 3 per cent compared to the other countries in this review, the surgical specialists in Kiribati are mostly overseas nationals funded externally. Private provision of health services is increasing and all of these governments (except Kiribati where even no private pharmacies exists), are looking into more public private partnership.

In further sections of this review, we will make references to these common characteristics in order to demonstrate their relevance to the recommended policy options.

9.4 Demand for financial protection for health

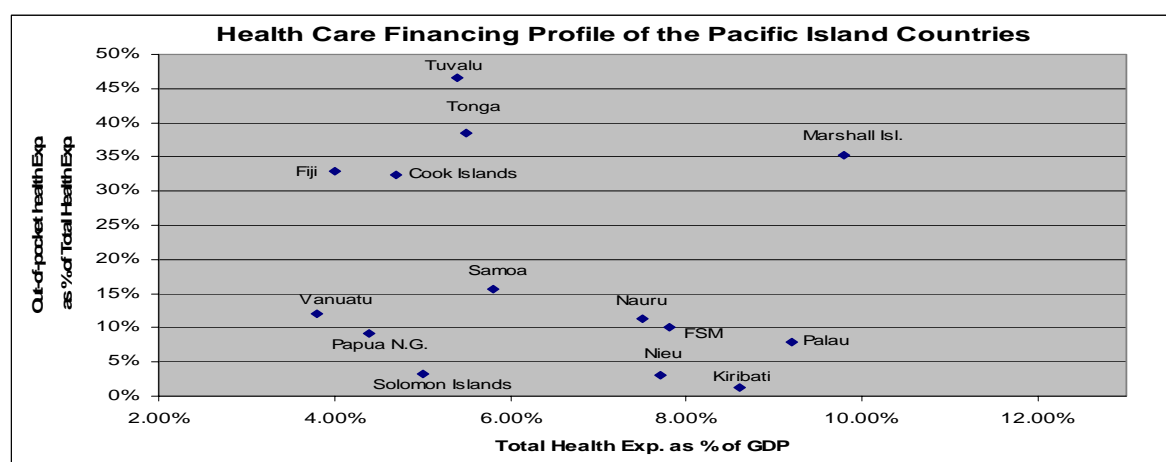
Demand for health services and demand for health insurance or more specifically *financial protection for health* follow different dynamics. While the informal sector population surveys have revealed a propensity for better health care access, it may not necessarily be translated that the respondents are demanding a contributory type financial protection mechanism. It may well be considered that the population purely

considers that the government should allocate more budgets for health, and that they continue to receive all, albeit better quality, health care for free. The policy climate in Kiribati was inclined towards this option rather than creating a new or additional financial protection mechanism for the provident fund members. This is not surprising given the country is a moderately high spender for health (8.5 per cent of GDP which is on par with OECD averages) and out-of-pocket payments constitute less than 3 per cent of total spending (see Figure 9.2).

If the governments' fiscal positions are sound and health is considered a priority, there is virtually no further action to take other than allocating sufficiently larger amounts for health. This unfortunately, is not the case in all five of the

countries. The rising costs of health care is often far in excess of the level of the increase in general price levels which has pushed most governments to cut budgets and introduce cost-recovery in the form of official user fees for some of the health services. Token amounts for medical consultations or for diagnostic tests (pathology or radiology) are quite common while most acute in-patient care is provided free of charge. The demand for health insurance is closely correlated with the general notion of *how much health care is free and how much of it is for a price*. The populations of Fiji and Vanuatu have become accustomed to a user-pay based health system and in Samoa, the preference of even the rural people to be admitted to the only private hospital, indicates the shift of population perceptions that health is becoming less of a free public good.

Figure 9.2 Health care financing profile



Source: Derived from data for the year 2002 in the WHO World Health Report 2005 Statistical Annex.

Figure 9.2 above reveals some of the health system specific issues pertaining to the countries under this review. The x-axis shows the share of national income spent on health and the y-axis shows the share of total spending on health that is funded out-of-pocket. Systems that are predominantly funded by out-of-pocket methods are generally speaking less equitable as the financial burden falls unfairly on the poor, old and sicker persons. Fijian households sacrifice a large portion of their disposable income on health care as evidenced from the share of out-of-pocket funded health care at around 33 per cent.⁵² Solomon Islands is a medium level spender (5 per

cent of GDP) and out of pocket payments constitute less than 5 per cent of total health spending. Samoa, like Solomon Islands is a medium level spender, yet out of pocket payments constitute some 15 per cent, which is much higher than Kiribati and Solomon Islands. Kiribati is a high level spender yet households are least burdened with out-of-pocket payments.

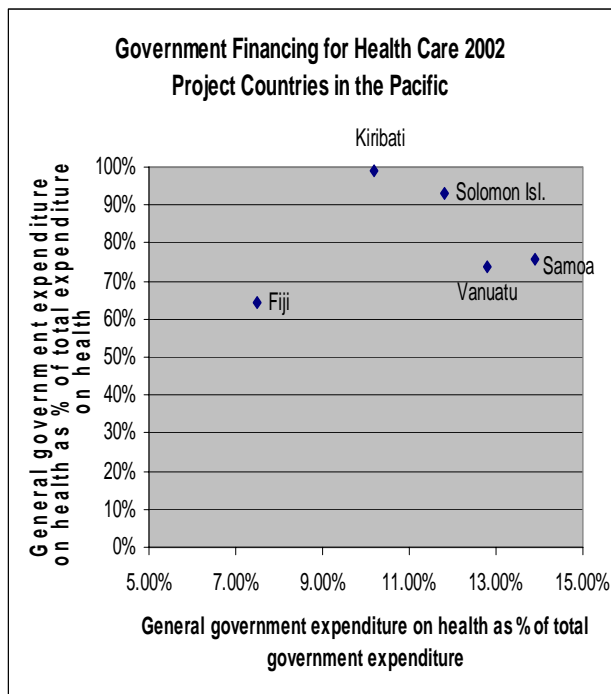
A policy challenge for the introduction of a pre-paid or contributory type health care financing system requires public support. If the health scheme is merely considered to be an additional source of income for the government, without accompanying benefits, such as improvement in service quality, then most members of the public will show reluctance to contribute to a prepayment or a tax specifically for health. This

⁵² This comment has to be treated with caution. Fiji is distinctively a net recipient of foreign patients from the rest of the Pacific islands so the high out-of-pocket percentage includes payments made by cross-border patients.

was discussed with the NPF and MOH representatives to gauge the willingness of the fund members in particular and the general public to contribute specifically for health.

The policy environment in Samoa shows a willingness for the provident fund (SNPF) to take a lead for including a health contingency, albeit the approach was more of a savings-based method rather than a social-pooling based health insurance mechanism. Nevertheless, the policy makers have specifically put the option of social pooling as a special fund allocated out of deductions for individual savings.

Figure 9.3 Government financing of health care



The policy climate in Kiribati stands at the other end of the continuum where virtually no such pressure from the provident fund members exists for including a health contingency to the existing benefits provided. Despite budgetary limitations, all health care has essentially been free for decades and changing this status-quo requires a lead from more than one pressure group such as from the members of the Kiribati National Provident Fund (KNPF) alone.

Figure 9.3, shows information about government's role in financing of health care. The x-axis shows the percentage of total government spending committed for health. The

y-axis shows governments' share of total health spending. In all countries, governments account for more than 60 per cent of total health spending, with Kiribati being almost fully funded by the government. These shares are generally speaking favourable in comparison with other developing nations where most health is funded by out-of-pocket spending due to governments' failure to allocate sufficient funds for health,

Health is a favoured sector among all governmental portfolios and in Samoa it account for 14 per cent of total government spending. This share is also the highest in comparison with the rest of the project countries. One reason for the high share of health funding is explained by virtually no military spending in Samoa, whereas both Fiji and Solomon Islands, having recently experienced political turmoil, have considerably large defence sectors in competition with other governmental portfolios, such as health. Solomon Islands has a major anomaly with regards to the government's role of providing finance to educational services. In the Solomon Islands the education sector, unlike health, has never been free, and households are accustomed to a user-pay based educational system and a free-entitlement based health system. This may explain the low-demand from this community for having financial protection for health.

Samoa's health financing reform program aims to shift part of the cost to the employers and formal sector employees as there is virtually little room left to expand government financing. Fiji, being the largest country in population among the five, has also embarked on a reform program to have a national health insurance scheme under the auspices of FNPF. The MOH of Fiji has been pushing this agenda forward while the FNPF is inclined towards a membership-based approach. MOH of Vanuatu has been considering a national social health insurance for quite some time, mainly due to policy advocacy by the WHO. However, their approach is inclined towards excluding the Vanuatu National Provident Fund involvement in the affairs of the new insurance mechanism.

In summary, the demand for social health insurance will be driven by two main factors:

1. How much of the health care is free or likely to remain free, and
2. How much service quality would improve with the advent of insurance.

Reducing the level of free health care will increase the demand for health insurance and this will more likely result in improvements to health service quality by the additional spending on health through insurance. People are more likely to pay for health care that provides a better quality service.

9.5 Insurance coverage issues

Assuming the project countries consider insurance financing for health care, it should be recognised that the reform, will not be a zero-sum option for displacing all of government financing with health insurance. These two funding mechanisms will not be mutually exclusive under the Pacific context of reform where the provident funds are expected to play a major role, but not necessarily the primary role, of funding health care.

In Samoa, some policy discussions have unnecessarily ended in a gridlock, where criticisms were made of medical savings (or a function of it for health insurance) to replace tax funding. None of the Pacific countries can finance all of their health spending by simply shifting the total cost burden to the formal sector. This does not make economic sense as it may render productive capacity to become overburdened and less competitive compared to the other countries' manufacturing, trade and service industries.

Health insurance is expected to play a top-up funding role. Therefore as the health insurance scheme cannot finance all of the funding needs of the health sector, details about what these funds will be used for in terms of coverage of services and coverage of people must be determined.

9.5.1 Unit of coverage, compulsory and voluntary mechanisms for expanding cover

An important aspect of social health insurance is whether the proposed schemes would cover members only, or members and their dependents. Secondly, coverage can be compulsory or voluntary or both. Samoa's proposed National Health Care Financing Scheme has called for compulsory membership for the active contributors and voluntary membership for their dependents. In many countries, social insurance

schemes are often compulsory for the formal sector and voluntary for the informal sector.

A family-based approach for coverage is recommended. This is especially important when the unit of coverage of the social security schemes during the design phase is defined. Some schemes cover workers only or may impose limits on the number of family members to control costs (i.e. Indonesia). For the Pacific Island countries, it is recommended not to take the latter approach. All family members should be entitled to the same health benefits as the main contributor (worker or other eligible beneficiary whose contribution is paid by a third party). It is also recommended to make the schemes compulsory for the family unit as a whole.

Samoa's voluntary approach for family members was critiqued and it was recommended to make registration of all spouses and dependent children compulsory.

As a transitional step, it may be considered to make formal sector coverage compulsory, and informal sector coverage voluntary. Currently, the policy thinking in the Pacific countries is adopting a dual-responsibility approach for financing health care. Accordingly, NPF induced insurance schemes are specifically designed to expand coverage to the formal sector in Samoa, assuming the informal economy would continue to be looked after by the government. There are limitations on the practicality of this approach which will be highlighted later in the chapter.

9.5.2 Membership registration, verification and contribution issues

A major challenge exists for NPF to register dependents of the active contributors when they embark on expanding social security benefits to include the health contingency. In practice, NPF information systems keep data only about the main contributor in their databases and sometimes include a separate field for the spouse to establish survivorship. Family coverage requires modification to the NPF information systems which is well within the capacity of the provident funds in the project. However, a number of considerations will come to play once the NPF become more than just an administrator for retirement savings. The following considerations will constitute part of the business rules which the legislature will need to draft the regulations which accompany them:

- Whether health insurance contributions will be levied on combined family income or on the income of the high income earner in a family with double income earners,
- Whether a health insurance card needs to be issued to verify the eligibility of the members at time of contacting health service facilities,
- What length of validity period would the health insurance cards carry; whether they would be valid for the length of contributory period or have a fixed term which is renewed periodically, and
- Whether the schemes would allow coverage for old age dependents on a compulsory or voluntary basis with their inclusion carrying a surcharge on premiums.

It is recommended for the countries to give lesser priority for these types of issues which relate to the operational business rules.

9.5.3 Setting premiums and rating methods

Premium is an amount paid to an insurance carrier for providing insurance coverage under a contract. It constitutes a monetary payment made in advance for a defined benefit package. Contributions are often defined as a percentage of salary (i.e. formal sector employees) or it could be a flat-amount collected periodically (monthly, quarterly, semi-annually or annually) from the informal economy and the self-employed.

The premiums are set by two methods: either by *community-rating* or *risk-rating*. Community rating sets insurance rates based on the average cost of providing health services to all people in a geographical area, without adjusting for each individual's medical history or likelihood of using medical services. With community rating, premiums do not vary for different groups of subscribers or with such variables as the group's claims experience based on age, sex or health status. The intent of community rating is to spread the cost of illness evenly over all subscribers rather than charging the sick or higher users more than the healthy. Social health insurance schemes use community-rating. Risk-rating on the other hand involves setting of premium rates by insurers (often by private companies) for individuals and small employers by taking the health status of the insured people into account frequently pricing high-risk

individuals and small employers out of the market.

Samoa's proposed national health financing scheme has legislated for a 6 per cent deduction from payroll for MediSave Scheme (an individual health savings account) and a flat amount per person for the MedInsure scheme (social health insurance) which was using elements of both community and risk-rating. The flat amount premiums were community-rated as far as earning level of contributor was concerned but risk-rated for the average family size, where large households had to pay a higher amount. If FNPF in Fiji opts to buy private group cover from a private health insurance agency, it would be highly likely that the insurer would impose risk-rated premiums to the provident fund members.

These issues will be elaborated on in the following sections. In general, priority should be the *main policy design of social health insurance schemes* rather than the business rules. The core design would define whether the scheme would be compulsory or voluntary, with or without dependent inclusion and whether premiums would be community or risk-rated. As a best practice approach, it is recommended that formal employment sector schemes be compulsory, inclusive of dependents, and premiums to be community-rated.

9.6 Organizational and functional issues

Generally speaking, social health insurance based health systems differ from general tax-based health systems with regards to the way basic functions such as revenue collection, risk pooling and purchasing arrangements operate. Secondly, a new administrative structure within the NPF or separate from the NPF may need to be set up for performing these functions. This must be assisted by a functional information system that has a strong decision-support component for assisting scheme administration, policy development and fraud control. Each of these issues are considered in the following section of the report.

9.6.1 Administration of health insurance

Given institutional presence of NPF in each of the five countries, it is feasible to entrust new responsibilities to NPF for administering health insurance.

Currently NPF performs three primary functions:

- Collecting retirement savings from their members (a payroll deduction),
- Managing and investing the funds, and
- Paying out a lump sum when members become eligible (or in some cases a monthly pension).

Health benefit payments, unlike lump sum pension payments are of a recurring nature from the time health insurance schemes are implemented. The schemes require administering benefits to more than just the main contributor if dependents are also included. NPF need to assess their administrative capacity to embark upon this new social security contingency. Given the size of their current membership pools, all the NPFs in the project countries are believed to be capable of administering health insurance, yet as seen in the Fijian case, other considerations may arise which may result in reluctance of a member-based agency to administer benefits for non-contributory members or the rest of the population.

The level of public trust in the NPF is also paramount. The 1998 street demonstrations for prudential failure of Vanuatu National Provident Fund (VNPF), has resulted in some cynicism by members and the general public about the suitability of the provident fund to manage members' contributions. This is reflected in the Solomon Islands MOH approach to set up a new board accountable to MOH for health insurance administration, if the country launches a national scheme.

After FNPFs decision to assess feasibility of purchasing a group-cover private scheme for their members, MOH of Fiji is looking into alternative mechanisms such as setting up a new para-statal agency for administering health insurance benefits for non-members.⁵³ Setting up separate administrative bodies for social security administration is not uncommon in the rest of the world. The population size of Indonesia being large has been instrumental for setting up separate social security agencies like ASKES, JAMSOSTEK and JPKM catering for different population segments; respectively, the civil servants (ASKES), private industry

(JAMSOSTEK) and the informal sector including the beneficiaries of free health care (JPKM and Kartu Sehat programs). In Turkey, social security is administered by three agencies, Emekli Sandigi for civil servants, SSK for private and state owned enterprises and Bag-Kur for the self-employed. However, Turkey has embarked on a reform to merge the three separate entities under a single umbrella organization like that of the Vietnam Social Security Agency. Given the two countries have similar population sizes and sufficient corporate memory and institutional know-how accumulated over years, it may well be said that the trend is following a *single-agency* path instead of creating administrative layers and fragmenting the risk pools.

For the Pacific Island countries, a single health insurance administration is considered feasible. Setting up special divisions within NPF or independent health insurance boards accountable to the MOH may be efficient for the relatively small size of the project countries. Fiji being larger is an exception and will be evaluated in the following sections.

If NPFs are chosen as the agency-responsible for health insurance, amendments to the NPF Acts need to be passed. Setting up new statutory authorities will require new legislation and may take longer.

9.6.2 Revenue collection

The capacity of a social insurance based health system to raise revenue is not fundamentally different from a general tax-based system. If the country in question has weak tax collection mechanisms, then a payroll based social health insurance revenue collection will suffer from the same kind of setbacks as the general fiscal management does. Social health insurance should not be seen as a panacea for solving the problem of raising all the revenue needed for funding health care. Most countries with larger rural populations in sparsely populated areas such as the Pacific have weak capacity to collect fiscal revenue. This is also true for raising revenue from those that are engaged in the informal sector, rural and urban alike. However the importance of social health insurance revenue grows substantially larger as the country gets more urbanised and the formal sector grows bigger.

Another concern is the impact of social insurance premiums on government finances. In Pacific

⁵³ A recent review by the WHO following the change of policy direction of Fiji after communications with the ILO Consultant had called for evaluating the feasibility of this option.

Island countries, the government is a substantial employer and payroll-based taxes ultimately require the government as the employer to finance the premiums. The impact of Samoa's proposed MediSave scheme was estimated to cost the government about 1 per cent of total recurrent public spending. This cost will probably be similar for Fiji but more substantial for Solomon Islands.

Social health insurance revenue from prescribed deductions on payroll can be classified as para-fiscal income as separate from general taxes (which is purely fiscal) if the collecting agency is different from the office of general revenue. While some reviewers classify the Australian *Medicare Levy* as a type of social insurance contribution, this is collected by the same federal revenue collection agency, the Australian Taxation Office and not by a para-statal social insurance organization like the Health Insurance Commission (Medicare Australia). In principal, collections need to be enforced either by the agency specifically set up for collecting social health insurance premiums or by the tax collection agencies.

As introduction of any new taxes require public debate, advocacy and acceptance, it is not an easy undertaking to legislate a new form of tax without having a justifiable reason for it. To gain stakeholder acceptance, transitional strategies can be implemented such as the one that was proposed for Samoa. As emphasised before, public trust in the agencies which are tasked with revenue collection will always remain important.

9.6.3 Transitional strategies for the Pacific Island countries

It may be taken for granted why Samoa chose to adopt a Singapore-like medical savings scheme instead of a *traditional* social health insurance scheme. A medical savings scheme is member-based and not risk-pooled. It serves as a stock amount for the contributor unlike health insurance premiums which is essentially an expense for the member and an inflow (premium income) for the scheme administrator. The unspent component of health insurance monies serves as a stock amount and kept in reserves for the benefit of all risk pool members and not just for the benefit of contributing member (as in the case for individual health savings accounts). If the current benefit outlays are less than the premium revenue, health insurance accumulates

reserves and if the opposite is true then the reserves are drawn down for the benefit of all members.

The policy makers in Samoa have proposed a transitional process for readying the members for a social pooling scheme. While a 6 per cent contribution for medical savings is prescribed by the legislation, neither is this entire amount allocated for recurrent health spending as a pooled fund nor considered a saving for future health expenses only. It is currently envisaged that about a third or quarter of total medical savings would be socially pooled, and the remainder will be invested for future retirement savings. The proposal was made attractive to the SNPF members by presenting *Medisave* as a cashable amount additional to the retirement lump sum if not spent during the working life of contributor.

It is too soon to make conclusive remarks about the strategy chosen by Samoa. However, it is recommended that the other project countries monitor progress in Samoa as well as developing their own transitional strategies. For instance, the path favoured by FNPF to purchase group cover is expected to have limited success due to moral hazard issues prominent among private schemes. However it may also be taken as a transitional strategy to build pre-payment scheme know-how which would eventually yield itself to become administered by the member's own agency (FNPF) or by a national health insurance authority.

(i) Risk pooling

The existence of NPF in the project countries has its advantages and disadvantages. In one regard, it is much easier to raise revenue through an institutional setting that has established statutory presence. NPF can easily collect payroll-based deductions specifically for health from members' pay in addition to the retirement savings. On the other hand, these institutions are set-up to protect and safeguard the interests of their members only. Broad-based risk pooling may not necessarily be in the best interests of the members, if the members are to be risk pooled with the rest of the population who have lower capacity to pay.

This very phenomenon is considered to be the root problem for the lack of consensus between FNPF and the MOH of Fiji and to a degree between MOH of Samoa and SNPF. FNPF is not

willing for their members to become part of broad-based risk-pooling. It can also be concluded that this agency prefers not to be the administrator of a national social health insurance scheme for the non-members.

Given Fiji's population, it may well be considered to have a fragmented risk pools one for the formal sector (administered by FNPF), and one for the informal sector (administered by a new agency under the auspices of MOH). As a best practice approach, it is generally recommended for countries to have a single-risk pool, or simply, a national social health insurance scheme. However, if the reform program is hindered by divergence of opinion among various stakeholders, it may well be suitable to implement transitional steps where population risks are pooled separately.

(ii) *Benefit package*

The benefit package constitutes an important element of any health system design whether social insurance or tax based. In essence the benefit package defines the population entitlements to health care and provides guidance on inclusions and exclusions. The likely role of health insurance financing is a top-up funding option to tax, and the two sources not being mutually exclusive. As a top-up option, policy makers need to establish what services (benefits) will be financed by health insurance and what will be financed by general taxation, and who will benefit from these different sources of revenue.

During the design of health insurance schemes, most policy makers become pre-occupied with preparing detailed fee schedules for a couple of thousand or more medical and pharmaceutical benefits with varying degrees of co-payments which may be applied *to* or waived *from* various types of beneficiaries. Bosnia and Turkey are currently reviewing their existing schedules and Malaysia is aiming to develop a whole new scheme. This process unnecessarily burdens the non-experts and delays the core reform program. It is highly recommended to separate the two issues which relate to benefit package design:

- Population entitlements to essential health care are not synonymous with a schedule of medical and pharmaceutical benefits. An essential benefit package is a short communiqué to the general public, in simple non-technical language that everybody can understand, what the government or a social

insurance scheme warrants paying. As an example, an essential benefit package can be defined as all general practitioner consultations or contacts made at government owned health stations/clinics (instead of using the term primary care), all referred hospital care (instead of acute in-patient care), and essential drugs (instead of pharmaceutical benefits).




- A detailed schedule of medical and pharmaceutical benefits is a product developed for the health administrators from both provider side (doctors, clinics, hospitals) and financing side (insurers and agents like the ministries of health, finance, social security etc). The schedule contains an itemised list of medical and surgical procedures and interventions, treatment regimens, pharmaceutical products, medical supplies, prosthetic and orthotic appliances etc.

For expanding social security benefits in the Pacific Island countries, the focus should be on whether the health contingency would be included in the scope of work of the NPF, or alternatively whether a national health insurance administration should be set up. Irrespective of the option chosen, clear guidance should be issued to what each agency will provide, and for which segments of the population.

The entitlements of the social insurance scheme members in dual-funded systems should be defined separately. The key issue here is how to separate the financing responsibilities which arise from the existence of two funding sources (social health insurance and taxes). In established health financing systems where universal health insurance is the norm, such as the National Health Service of U.K. and Medicare of Australia, all of the population has a defined health entitlement. If the proposed policy changes recommended by the project in the Pacific Island countries occur, then the issue of *who provides and funds what* will become a policy issue.

Box 9.1 below presents alternative packages of care that can be funded by general taxes and by social insurance taking the system characteristics of the Pacific Island countries into account.

Box 9.1 *Alternative benefit package design for Pacific Island countries by source*

	General Tax funded benefits (from Public Providers only)
<ul style="list-style-type: none"> ● ● ● ● 	<ul style="list-style-type: none"> Primary Care: <ul style="list-style-type: none"> ▪ Rural health ▪ General Practitioner Consultations ▪ Basic immunizations ▪ Maternal care ▪ Primary Dental and School Dental Essential drugs Chronic Care <ul style="list-style-type: none"> ▪ Renal dialysis ▪ Diabetes patients ▪ Cancer patients Medical Evacuation Overseas
	Social Health Insurance funded benefits and benefits provided to the beneficiaries of government funded Social Safety Nets for Informal Sector/Poor (from both Public and Private providers)
<ul style="list-style-type: none"> ● ● ● ● ● 	<ul style="list-style-type: none"> Acute in-patient care (apart from chronic care) Specialist consultations and hospital outpatient services Diagnostic services (pathology and imaging) Ambulatory medical drugs (not covered by the essential drug list) Overseas referrals (apart from Medical Evacuation)
	Supplementary Benefits (Social or Private Insurance funded and public or private provided)
<ul style="list-style-type: none"> ● ● ● ● 	<ul style="list-style-type: none"> Specialist Dental Optometric Elective surgery Elective overseas referrals

Generally speaking, tax-funded benefits are best suited for those that are provided by public owned health service delivery units, whereas social and private insurance can contract with both public and private providers.

The dual responsibility issue for funding different packages of care has been highlighted in the review of Samoa National Health Financing Scheme proposal undertaken by this project. It was recommended that clear responsibilities for financing packages of care should be established once the SNPF starts collecting health insurance premiums. The practical examples include financing of renal dialysis which is already done by the government for the whole population whether they are members of the SNPF or not.

The SNPF scheme in essence provides benefits only for acute in-patient care services. In other words all out-patient care either at primary or secondary level would continue to be funded by the state in the same way that it is now funded. The problematic issue concerns high cost acute care like renal dialysis which is already funded by state and whether these types of benefits would

continue to be funded in the future after the SNPF scheme starts. For clarity, it is recommended to establish mutually exclusive funding responsibilities for the government and the SNPF. This recommendation applies to the rest of the project countries who wish to embark on social health insurance.

One final consideration with regards to the benefit package design concerns the private health insurance industry. In established health systems where universal cover is the norm, private health insurance policies mostly provide cover for the excluded services (such as dental, optometric etc) and elective procedures which can be done immediately at any private health care provider without being on the public provider waiting list. In such systems, the private health insurance becomes a supplementary cover scheme rather than positioning itself as a competing scheme to the scheme being provided by the government. Benefits excluded from the two main financing sources (taxes and social health insurance) can be included in supplementary insurance policies which can be offered by the social insurance agency itself by applying surcharge on current premiums or by private insurance companies as shown in the last part of Box 9.1.

(iii) *Contracting with providers: balancing public and private provision*

One advantage of social health insurance based health systems is the advantage the administering agencies have vis-à-vis tax based systems to purchase best possible health care for the beneficiaries. Purchasing is a function which involves contracting with the health service providers, public or private alike and agreeing on certain terms including those that relate to quality of care and the method of payment.

Public and private partnerships in provision and financing of health care often create controversies between various stakeholders which could well be ideologically driven (such as social/egalitarian versus liberal/market competition approaches etc). For an objective view on this matter, reliance on evidence rather than siding with a particular ideology is essential.

Health systems which provide more choice are generally speaking more efficient than those that have only one type of provider. This holds true for purely private provided (and often funded)

systems such as that of US which is not as cost-efficient as systems where public sector has a predominant role. In effect, existence of both public and private health care providers and social and private insurance can be considered more desirable than having a single choice. On the other hand, dominance of the private sector in both provision and financing of care is often a recipe for a faster increase in health care costs in comparison with systems where public has a more dominant role. Social health insurance funded systems often serve well for finding the right balance between public and private provision of health care.

One of the issues raised by the SNPF in Samoa was members' willingness to have access to better quality care including private hospital services. In the broad context, the SNPF scheme aims to create competition between public and private providers. One of the arguments that were put forward was the possibility for the MOH to open private wards to tap into revenue from the SNPF financing (insurance and medical savings). This is labelled as public/private partnership.

Solomon Islands is also considering whether to allow right-of-private practice for their government employed doctors in order to improve their salary levels. Unlike Samoa, this approach is expected to tap into private revenue sources (private insurance from Police and Teachers Association schemes and out-of-pocket/user pay funding). While this is well-intentioned, it is often difficult to establish how much of the doctor's time should be spent on public and private patients separately. Right of private practice often yields doctors spending more time with private patients and could well be a perverse incentive as has been evidenced in Turkey and becoming increasingly more common in Australia. After government's deliberate efforts to increase private insurance membership in Australia, specialist doctors who see their patients in public out-patient wards are increasingly recommending their patients see them at their private clinic to reduce waiting times.

After successive years of public service quality decline, Turkey is considering the proposed universal social health insurance scheme to become the sole agent for purchasing private health care. The aim is to have a lever on the control of incomes of doctors who practice privately. The Australian experiences can not be

generalised due to differences between rural, urban and metropolitan practices. It is believed that rationing is taking place to some extent where low income earners who have more time to spend at public waiting rooms are opting for public provision and employed people with moderate/high incomes and less time to wait at public centres are opting for private insurance and private provided care.

An important dimension for the Pacific Island context is consideration of which health insurance administrators may opt for contracting with providers overseas. The options may include purchasing/financing whole medical teams to visit host countries to perform screening and surgical operations on scheduled time-frames as well as having a contract with them for sending patients to be treated abroad.

The success of Samoa and Solomon Island policy initiatives can only be evaluated in the long term. It is expected that health insurance will constitute an additional source of income to the public and private health service providers alike. It is recommended that policy makers operationalise social health insurance before providing incentives for the private sector to flourish. This will create a more balanced public and private provision of health care.

(iv) *Provider payment methods*

The design consideration should take provider payment methods into account. If user fees are applied, it may be considered that the formal sector social insurance scheme may pay for these fees while the excluded populations would have to pay them out-of-pocket. A fee-for-service payment mechanism is not the only option to be considered. It may well be possible for the insurance agency to establish a different payment method with the health care providers on terms that are different to what is applied to the general public.

Full literature on various provider payment methods and their potential advantages and disadvantages can be found in published sources including the latest WHO review of Social Health Insurance Schemes in Asia and the Pacific. The following table (*Table 9.1*) from WHO's draft paper titled *Strategy on Health Care Financing for Countries of Western Pacific and South-East Asia 2006-2010* provides an overview of various

provider payment mechanisms that are currently applied today.

Instead of providing a literature review, it is desirable to highlight the main policy focus to the project countries in the Pacific. It is highly recommended to adopt payment methods that provide incentives to health service providers for improving service quality and establishing presence at close-to-client locations.

When Bulgarian and Romanian national health insurance agencies started to offer capitation based contracts to primary health care physicians (who were previously paid a salary), a good number of general practitioners chose to open rural practices and a sizable number of specialist doctors of internal medicine, paediatrics and

general surgery started to provide primary care services in addition to specialist services.

These types of provider payment options can be engineered by the MOH regardless of whether social health insurance schemes are introduced or not. Furthermore, the benefit package design is highly interlinked with the method of payment each financing agent (MOH, the NPF or the national health insurance authority) may choose. The exclusion of primary and secondary level out-patient care services in Samoa means the SNPF can not offer capitation-based contracts to general practitioners. For acute in-patient care services provided to SNPF insured members, it was recommended to adopt a case-based method instead of fee-for-service.

Table 9.1 *An overview of provider payment mechanisms*

Payment mechanism	Unit of payment	Economic incentive	Foreseeable effects
Fee for service	Medical procedures	<ul style="list-style-type: none"> Maximise number of medical procedures 	<ol style="list-style-type: none"> Limited prevention High Technology Supplier induced demand generation Rate discrimination Inequalities
Salary	Time worked	<ul style="list-style-type: none"> Minimize work effort 	<ol style="list-style-type: none"> Importance of salary raises and promotion Growth planning Circumstantial cooperation and competition among physicians
Capitation	Payment per registered person, based on membership or affiliation, and estimated cost of care	<ul style="list-style-type: none"> Maximize number affiliation Minimize costs 	<ol style="list-style-type: none"> Prevention Referrals Risk selection Under-servicing
Per diem	Payment to a hospital per night stayed per patient	<ul style="list-style-type: none"> Maximise number of stays Minimise average cost of stays 	<ol style="list-style-type: none"> Increased average length of stay Reduced cost of stays Unnecessary hospital admissions Reduced outpatient and day surgery
Per case	Payment to a hospital per admitted patient regardless of length of stay	<ul style="list-style-type: none"> Maximize number of admissions Minimize average cost of each admission 	<ol style="list-style-type: none"> Increased admissions Reduced average length of stay Readmissions Unnecessary hospitalizations
Budgets	Payment to a provider for an undefined activity within a period of time	<ul style="list-style-type: none"> Minimize costs Cap total spending 	<ol style="list-style-type: none"> Expensive implementation Compatible with planning Room for provider to manoeuvre

Source: Adapted from "Paying Health Care Providers in the Caribbean", Pinto M. Andersson B. WHO Pan American Health Organization, 2001.

Reprinted from "Strategy on Health Care Financing for Countries of Western Pacific and South-East Asia 2006-2010" WHO Western Pacific Regional Office, June 2005.

Similar policy reforms need to be considered depending on how the benefit packages are designed, how the provider lobby groups such as

medical and nursing associations in the ILO project countries would welcome introduction of new provider payments and how well various

stakeholders collaborate and participate in health sector or health financing reform.

Another issue relates to accounting and billing processes that need to accompany provider payments. Under a free-of-charge health system funded through a budgetary process with periodic cash or bank remittances to the health service provider, there is little a provider can do with a third party payer like an insurance agency. This has been an issue for Samoa's health system in general. While user fees are applied per night of stay at hospitals, the charges are considerably low (token fee) which are not commensurate with actual cost of care, nor are they considered to be the basis of charging SNPF for members' health benefits.

The public health systems in most Pacific Island countries especially Kiribati, Solomon Islands and Samoa have very little experience with accounting and billing systems suited to a fee-for-service type of environment. Even in Samoa where the health service provider can collect statutory charges from third party payers like Accident Compensation Corporation and the SNPF for the Senior Citizens Benefits Scheme, cost-recovery from them have been very small. Only private providers in Fiji, Vanuatu and one hospital in Samoa have accounting and billing systems which can be considered as a source of information for negotiations between a third party payer (insurance agency) and a provider on contractual terms that are agreeable by both parties.

It is not necessary for health insurance to assume a fee-for-service type provider payment method. Regardless of the chosen method, the policy makers may choose to collect co-payments for some health services from both insured members and the rest of the population which are not insured by the insurance scheme, yet eligible for tax-funded benefits. The Samoa proposal for instance called for co-payments for acute in-patient care which was critiqued by the project review. While we endorse high cost interventions to be covered by insurance schemes in order that they provide financial protection to the members, it may be considered to collect affordable co-payments from some services in order to circumvent excessive consumption or moral hazard⁵⁴ for non-essential services.

⁵⁴ Moral hazard in insurance parlance refers to abuse of insurance benefit by insured people which yields to an increase in health expenditure.

(v) *Information Systems*

It is highly recommended that an information system that can cater for dealing with third party payers is developed by the providers in order for health insurance to assume a meaningful role as a financing agent in the health sector. This information system does not have to be complicated and could well be developed on native decision-support platforms or desktop productivity software suites like MS-Excel (Spreadsheets), MS-Access (database).

Both hospitals (providers) and NPF (financing agent) need to have a functional information system which at the least should possess some interface that monitors health service use and expenditure. The active membership sizes of NPF in the project countries except for Fiji are manageably small. Therefore they don't demand a complicated transaction processing system as most large social insurance agencies elsewhere in the world use. All NPFs in the project countries possess a transaction processing system for managing retirement contributions, investments and fund withdrawals. Depending on whether personal loans are provided to the NPF members, some information systems like Samoa's possess typical credit grant, loan servicing and monitoring components. It is most likely that only minor capital and software development expenditures would be sufficient to scale the existing information systems of the NPF to accommodate a health insurance scheme. This may be another consideration for choosing the NPF option for introducing health insurance instead of setting up a new authority or agency specifically for health insurance.

9.7 Extending coverage to the informal sector – poverty focus

9.7.1 Government-funded social safety nets

An important factor which may impede project countries from taking action on introduction of social health insurance is the existence of the informal economy, often a large segment of the population which has very little capacity to pay contributions. Social safety nets, not just for health but for other contingencies such as old age, educational access for the poor etc are considerations which all governments have to accommodate in social policy design. Without providing a full literature review on definitional aspects of social safety nets, we would like to

emphasise the importance of designing social security systems which possess equity and solidarity traits in their core design.

Protecting the poor and vulnerable from ill health and poverty due to illness can be accommodated within social health insurance design. As previously mentioned, the Pacific Island countries already provide funding for health care, often through the supply side subsidies. Social safety nets need to be designed if the current supply side subsidies fail to deliver good quality and sufficient amount of health care to the population, and the policy makers then resort to cost recovery by introducing user charges for government provided care. This manifests itself with the amount of out-of-pocket funding for health care.

The share of out-of-pocket funding for health care in total health spending as demonstrated in Figure 9.2 provides an insight into the workings of health financing systems in the countries. In general, the five project countries apart from Fiji do not have large out-of-pocket payments for health. Yet the national averages may conceal that rural and poor people often sacrifice more of their disposable incomes for health care in comparison with the urban and rich. Apart from official fees, indirect costs of health care such as patient transport, expenses of accompanying family members for those who are hospitalised, and hidden costs such as loss of income during illness all place unfair burdens on disadvantaged people. Social insurance schemes may help alleviate the negative impact of these factors.

A government funded social safety net can change the direction of subsidies in order to improve financial access of those people who have low capacity to pay. Turkey, Viet Nam and Indonesia have all set up government funded social safety nets for health. The *Greencard* scheme in Turkey, the *Health Care Fund for the Poor* in Viet Nam and *Kartu Sehat* program in Indonesia provide cover to about one fifth of the populations in Turkey and Viet Nam and one tenth in Indonesia. Instead of providing bulk funding for all of the citizens in the provider budgets (hospitals and clinics), the governments may prescribe a premium amount per beneficiary and direct the subsidy to a purchasing agency such as the national health insurance authority. This option can be achieved in a way that is cost-neutral to the government. The same amount that is currently being spent or should ideally be spent on the poor can be set as a government

contribution to the social health insurance scheme.

If the legislation of NPFs in project countries are modified to administer health benefits, the demand-side subsidies can be directed to these authorities who would then contract with the health care providers and channel the funds accordingly. The main advantage of a demand side subsidy is its superiority to make *money-follow-the-patient* rather than *money-follow the provider* who may or may not provide care if the population that needs the services is unable to access health care. Demand side subsidies may bring more transparency and accountability to the system as some countries have learned over the years.

Vietnam's experimentation with free health insurance cards for the poor in the past decade has indicated that even with the demand side subsidies, the poor had difficulty in financial access. More reform was introduced to bring the services to the populations that most need them. The changes included that entire ethnic, rural and remote communities were funded by the government by making incentive payments to the health care providers that provide services to the poor, disadvantaged and ethnic minorities.

Within the evaluation of the National Health Financing Scheme of Samoa, the negligence of the informal sector and the poor was evidenced in the core design. It was recommended to the policy makers to consider a demand side subsidy which can be paid directly to the SNPF. This agency has already been administering a government funded scheme for the senior citizens, and hence another government funded scheme which provides health insurance for the poor is not fundamentally different to the former. SNPF as the national administrator of the health insurance scheme can purchase health care to the eligible members on the same contractual terms as has been done for the contributory members, shoring up solidarity and improving risk pooling. This option will most likely receive little attention at the moment but could well be experimented after five to ten years of implementation of the formal sector health insurance scheme.

The same policy may be considered by Fiji. In essence, if government funding for health care is limited, it is more equitable to prioritise funding health care for those that have no capacity to pay

instead of providing low quality and low amount of care to the whole population.

9.7.2 Community-based financing and voluntary health insurance schemes

Community based financing, sometimes referred to as micro insurance does exist in many communities in the Pacific yet their level of effectiveness in providing financial protection to those that are suffering from ill health is undocumented. Community financing can be charity based like those provided by faith-based organizations where voluntary contributions are put in a common pool for handing out cash benefits to sick members. More advanced community based schemes take the form of a local community organization such as village administration, rural health clinic or a non-governmental organization administering the scheme. In Vanuatu, the Trustees Board of *Ifira*, a relatively well-off island community, is paying monthly cash benefits to their senior citizens and they were considering an inclusion for a health contingency.

For Pacific Island countries, community-based health insurance would likely be of limited success. It is recommended that the government either ensures physical and financial access to rural and remote island communities through the supply side subsidies as they currently do, or through social safety nets as explained above by changing the direction of the subsidies to the demand side.

Pacific Island countries have also experimented with voluntary health insurance through professional associations. Teachers Unions/Associations in Vanuatu and Solomon Islands and the Police Association in Solomon Islands have voluntary health insurance schemes that provide supplementary cover often for private outpatient medical consultations and drugs. The schemes cover the workers and their dependents, yet they all experience the same kind of problems which any voluntary scheme faces such as adverse selection and to a limited extent, moral hazard. However, the existence of such schemes should be considered an advantage for these countries. The concept of pre-payment for health care among the formal sector is well established and populations in these islands demand better access and better quality health care.

It may thus be suggested for the Pacific Island countries to consider voluntary schemes for the informal economy which may use flat-amount premiums (rather than a percentage of earnings). This however has to be considered after organization and administration of health insurance is decided. NPFs can offer voluntary health insurance schemes to non-members similar to voluntary retirement contributions which have been experimented with in Kiribati. In summary, it should be well established that voluntary schemes are highly susceptible to adverse selection and moral hazard yet many countries implement them in order to offer some financial protection for their citizens.

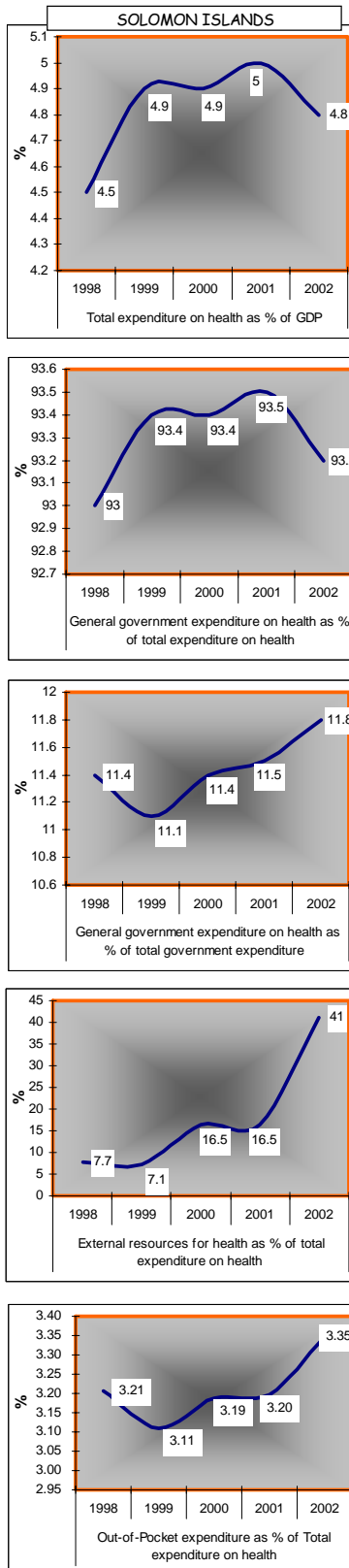
9.8 Country reviews

In this part of the chapter the basic health financing profile of Solomon Islands is presented followed by a description of the policy context. The profile was prepared by using the latest National Health Accounts (NHA) data available at the WHO web site.⁵⁵ The policy context is based on written information made as well as through communication with various stakeholders.

⁵⁵ See www.who.int/nha/en for English language web site of country profiles and NHA data between 1997-2002. There has been a restatement of Vanuatu NHA data series from 1997 since they appeared in the Statistical Annex of World Health Report of 2003. We use the latest available information which covers 1998 to 2002.

9.10 Solomon Islands

Figure 9.4 Shares of health funding in Solomon Islands: 1998-2002



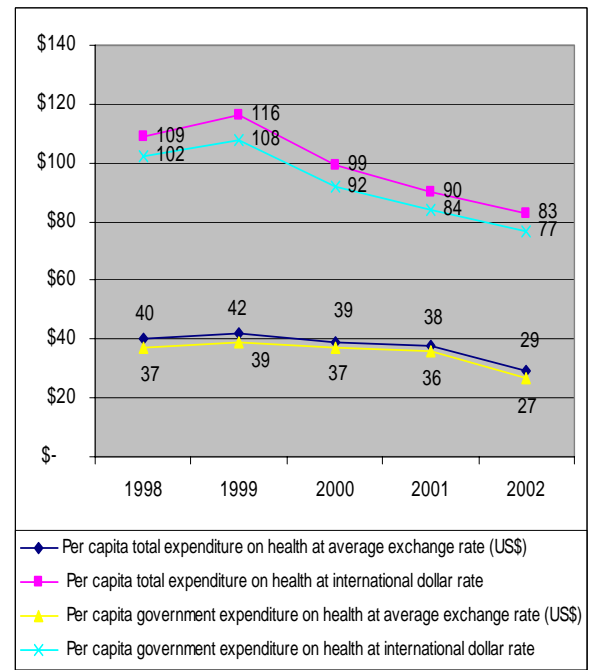
9.10.1 Basic profile

Solomon Islands is a medium level spender on health which has levelled at around 5 per cent of GDP during the past five years. Although not as high as Kiribati, government accounts a large share of total health spending (around 93 per cent). However this level, unlike other countries needs to be treated with care as a large share of government's commitment to health is funded externally.

In terms of total government spending, health accounts for about 11-12 per cent. This relatively high share could be compared to the education sector which is user-pay based whereas health is not. Given the young population pyramid (wide-base; narrow tip) of the country, education, had it been funded by the government-could have become a higher claimant from fiscal revenue and health a lower claimant. Yet health accounts more than 11 per cent and is expected to increase substantially as the population grows older.

External funding for health has always been a major source, doubling from about seven to eight per cent before 2000 to 16 per cent in 2000 and increasing significantly to 41 per cent in 2002. Like Fiji, ethnic violence has disrupted functioning of most government services and Australia's commitment to regional security has led to substantial external support to the Solomon Islands.

Figure 9.5 Per capita funding for health care in Solomon Islands: 1998-2002



Per capita spending on health has been falling since 1999 due to high population growth. Among the five Pacific Island countries, Solomon Islands has the highest population growth rate of about 3.1 per cent per annum (1993-2002) and a total fertility rate of 4.4 (2002). For this reason, government allocations and external funding for health have been unable to keep up in per capita terms.

9.11 Policy context

9.11.1 Recent experience with insurance

Health insurance as a concept is not new in Solomon Islands. In the past decade, private schemes such as Blue Shield Australia were operating in the country which later ceased offering policies in the country after its financial

troubles in Australia. The vacuum following the closure of private schemes has led to investigation of other options including SINPF, public sector and member based organizations' involvement in the administration of health insurance.

In late 1997 and early 1998, medical insurance was on the policy agenda. A feasibility study that was conducted during this period concluded that it was feasible to introduce health insurance.

SINPF experimented with arms length involvement through insurance companies in which it has equity ownership, to provide a range of health care policies to the SINPF members, including medical insurance. The considered option was to have a voluntary add-on product to life cover schemes. Life Mutual Insurance Company which was 75 per cent owned by SINPF, was set up to provide life insurance, predominantly to SINPF members on a compulsory basis, as well as to the rest of the community on a voluntary basis. The option was considered financially unsustainable for the insurance carrier and the company was abolished in late 1998.

SINPF Board at the time believed it was in the best interest of the members to choose whether to have life cover or not, and accordingly, to obtain a policy from any private providers rather than a company that is owned by the SINPF. Today, another part-SINPF-owned subsidiary, Solomon Islands Mutual Co. offers a range of insurance products to the population but no health insurance policy is on offer at the moment. While this company could well be seen as a channel to introduce health insurance, the company's troubles with the insurance industry regulatory authority have led to suspension of its business licence in early August 2005. The financial and regulatory woes of Solomon Islands Mutual may be considered as evidence of private failure, and hence public options should be debated at legislative and executive arms of the government.

9.11.2 Member administered voluntary schemes

Public service staff associations in the Solomon Islands are part of the civil service, and they work on protecting their members' social protection interests. These benefits constitute another tier above SINPF retirement scheme as well as including non-SINPF provided benefits like

education, health etc. Solomon Islands Police Staff Association (SINPA) and Teachers Association (SINTA) both have voluntary health insurance schemes.

Staff associations negotiate with private insurance carriers to purchase group cover schemes on discount for life, investment products and others. As there are no longer any private medical insurance policies on offer, both staff associations set up their own medical insurance schemes after the departure of Solomon Islands Blue Shield private insurance in 1991. All such arrangements are on a voluntary basis.

The voluntary health scheme for the Police Association has a flat amount premium of SBD 25 per fortnight. As salaries range from SBD 450 to SBD 1600 the premiums are regressive (or constitute a larger share of earnings of low salaried staff in comparison to higher income earners). Out of total 1300 staff in the police and prisons department, some 450 members contribute regularly (35 per cent). This generates about SBD 300,000 in annual premium income. The policy covers the member and the family dependents (spouse and children). Parents of unmarried staff members are also covered until the member gets married. It is believed that about 1600 people, including the dependents, are current beneficiaries of the health scheme.

As all hospital care is free, the benefit package is scoped to cover out-patient medical consultations and drugs. In the past when public hospitals had private wards, the scheme used to pay for private bed charges as well⁵⁶. As these beds no longer exist, the package is categorically for out-patient care only. The hospital levies some charges for diagnostic tests (pathology, medical imaging, etc) including high technology services like computerised tomography. The scheme pays for 75 per cent of cost of medical consultation fees and drugs. On average, private medical consultations cost about SBD 60 and drugs cost about SBD 40, totalling to around SBD 100 per medical contact. Roughly 3200-3500 out-patient consultations take place in a year with a total benefit pay-out of more than SBD 250,000 per year (see Table 9.2).

⁵⁶ Private bed day charge for maternity wards used to be SBD 80. With an average length of stay of 2-3 nights, the scheme used to pay about SBD 200 per delivery.

Table 9.2 SINPA medical insurance scheme

Solomon Islands Police Association Medical Insurance Scheme	
Membership	
Total Association members	1300 persons
Participating members	450 persons
Average Household Size	3.55 per h.hold
Revenue and Premiums	
Flat Premium	25 per fortnight
Average Salary (low)	450 per month
Average Salary (high)	1600 per month
Premium expense as per cent of annual income	
-low	12%
-high	3%
Annual premium income	\$293,625
Service Use	
Annual Number of Consultations	3,500
Number of contacts per beneficiary per year	2.19
Average costs	
Cost per doctor visit	\$ 60.00
Average cost of drugs per visit	\$ 40.00
Total cost per medical consultation	\$ 100.00
Expenditure	
Total cost of medical contacts and drugs	\$350,000
Benefit pay-out rate	75%
Co-payment rate	25%
Total benefits expenditure	\$262,500
Member co-payments	\$ 87,500
Balance	
Annual Carry overs (to reserves)	\$ 31,125

Source: Derived from ballpark figures provided by the Police Association

The diagram above provides basic data about the scheme's recent operational averages. While there have been accumulated reserves for a number of years, a large withdrawal of retirement bonuses from the associations defined benefit plan⁵⁷ have forced the board to withdraw SBD 125,000 from the medical scheme reserves. This amount is accounted as a non-interest bearing liability of the retirement plan and a receivable for the medical benefit plan. As it currently stands, the amount is seemingly not recoverable in the short run.

As staff members are located all around the islands including the peripheral ones, there has

been some discontent among non-Honiara staff who claims the scheme only benefits those that are close to the services (urban residents). The scheme now offers emergency medical evacuation for outer island police staff to Honiara which costs about SBD 16,000 per service and subsidises costs of overseas treatment by a flat SBD 5,000 if the government has approved overseas referral. Normally one or two medical evacuation or overseas cases arise in a year, yet inclusion of these benefits in the last financial year has increased benefit pay outs to about SBD 400,000. While the accumulated reserves are sufficient to cover the larger then expected pay out this year, the scheme is considered not sustainable in the long run given the non recoverable nature of the receivable from the retirement scheme.

The Teachers Association (SINTA) health insurance scheme is similar to the Police Association scheme. In the early 1980s, SINTA Health Society existed in association with Blue Shield Insurance. After the closure of Blue Shield, SINTA instigated its own health scheme, yet in its ten years of operation the scheme has been running deficits.

The likely causes of the deficit are numerous. Unlike the SINPA scheme which collects SBD 25 per fortnight, the SINTA scheme collects a lower contribution of SBD 14 per fortnight. The revenue is used for both educational and health benefits. The lower premiums could be related to affordability given earnings of teachers in general are much lower than other sectors. The scheme covers the member and his/her dependents.

In general, the voluntary nature of the scheme encourages participation from members whose priority is having access to the cash liquidity provided under the educational contingency. At the start of the school year, some members are eligible to a cash-loan per child which is a short term liquidity provided to large families who can not afford the upfront school fees. Interestingly, education in Solomon Islands has never been free while health has been so. The existing members of SINTA value the liquidity provided for educational expenses quite highly vis-à-vis health benefits. The cash benefit for education is a non-interest bearing loan which is recovered from the member during the year. Considering the loans are fully recoverable, the premiums can be used for paying out health benefits, the only concern being liquidity of the fund before educational

⁵⁷ The Police Staff Association in addition to the provident fund retirement lump sum benefits collects about SI \$ 9,400-10,000 per staff over the working life of the member, invests these amounts and pays out SBD 25,000 upon retirement. A few years ago, a government decision forced a large number of staff to leave service on early retirement which as a result forced the association to pay out an unexpectedly large total retirement lump sum. The shortfall was covered from the reserves of the health insurance scheme.

loans are recovered without any default. It can well be said that, health benefits that take place at the start of the school year can only be paid in arrears after a few months of contributions are recovered from the members.

SINTA notes the administrative costs of administering such a complex scheme was taking its toll on the health contingency. Due to rising costs of drugs in particular, and relatively high cost of private doctor visits, the scheme has pressed for new rules such as requiring members to visit public out-patient departments first, and then obtain a referral to a private provider if the case can not be treated at a public facility in a medically required period for full recovery (assuming waiting lists exist). Unlike the police scheme, the health benefit pay-out rate at SINTA is 50 per cent (an equivalent amount of co-payment per service is collected meaning equal cost sharing between the fund and member). SINTA has 3000 members out of total 5000 teachers in the country, yet membership for the scheme has not been noticeably large. Currently the low income teachers with many young age dependents are more willing to pay the SBD 14 per fortnight. The effectiveness of the health scheme is considered to be fairly muted at the moment.

9.11.3 Policy stance of Solomon Islands NPF

SINPFs view on introducing new social security contingencies is based on objective criteria: if the members and the government deem it beneficial, the administration is welcome to elaborate further on the agency's role regarding its implementation. Health insurance is considered no exception to this policy stance.

Although health service quality is rather poor, the remote areas suffer more from low quality and lack of service access. The urban Honiara areas where most SINPF members reside, generally have easy access to health services. Apart from waiting times and unavailability of some medicines, low levels of service quality do not receive very much adverse publicity in the media nor being voiced by the SINPF members. There is seemingly no immediate need to have a health contingency as being pressed by the SINPF members at the moment. This may be partially explainable given that the two large government sector employees, the teachers and the police force already have schemes of their own, yet our

consultations with the two association boards revealed, they would be willing for another agency specialised in health insurance administer this contingency, which could well be SINPF.

The SINPF management does not reject the idea that the agency becomes responsible for revenue collection for a health insurance scheme if it ever gets endorsed by the government. On the other hand, they are more inclined for another independent authority or a new statutory one such as a national health insurance board or a parastatal health insurance agency to administer health benefits. This administrative arrangement is similar to Bulgaria where health insurance revenue collection is done by the National Social Security Institute (a retirement scheme administrator) but benefits are administered by the National Health Insurance Fund. The policy push should however be jointly endorsed by the MOH or the MOF which SINPF reports to. In the opinion of the SINPF management, a joint committee from ministries of labour, health and finance should first investigate this option which SINPF could then become part of.

It is clear that SINPF has administrative capacity limitations to it becoming a full-range health insurance carrier. In its brief history, SINPF has relied on its own equity owned subsidiaries to carry out administration of insurance benefits apart from retirement benefits. There may also be political reasons to conclude the general woes of SINPF yields itself not to take too much on board, given the fact that the management board has recently been replaced after a conflict with the government on the accounting treatment of government obligations (liabilities) to the provident fund. The consultations with senior management suggested that if health insurance is to be experimented with, it should best be introduced on a voluntary basis first. For the health insurance scheme to be compulsory in the long term, the board of SINPF would predominantly focus on its sustainability.

9.11.4 Policy Stance of MOH

The capital infrastructure of the Solomon Islands hospital and primary level care delivery network is rather poor and major upgrades are needed. MOH focus is provision of services, quality improvements and better financial management. Strengthening capacity for improving financial management at the public hospitals was considered a higher priority than financing of

health care, such as through health insurance. Experimentation with user fees was tried, including opening of private beds at the public hospital. Later, private wards were abolished as collection of user fees has not only brought administrative complexity but they were ineffective in raising revenue. The MOH currently looks at the option of allowing right of private practice to public sector doctors in order to improve service quality and compensation of doctors instead of re-opening the private wards after renovations at the Honiara base hospital is complete.

The policy stance of MOH today on health insurance has not changed much yet the ministry is warm to the idea provided that the executive arm of the government provides clear guidance on what role the MOH can play in its implementation. The consultations with MOH suggest that MOH has not been a direct channel to lobby for an alternative financing scheme such as health insurance. The permanent secretariat of the Prime Minister's office however has been tasked with evaluating options for health financing reform which as a focus is looking into Australian health system as a model that can potentially be replicated or modified to suit Solomon Islands' needs.

9.12 Proposed reform

The report by Mr. Fred Fakarii and Mr. David Tuhanuku from Public Service Department and Prime Ministers Office titled *The Australian Health System-A Possible Model for Solomon Islands* covers the details which focus predominantly on the service provision side. The Cabinet commissioned this review as the public sector health workers have growingly been raising their discontent about working conditions and low compensation levels.

In essence, the reform aims to achieve the following objectives:

- To maintain financial sustainability of the health sector while maintaining universal access to services,
- Improve the salaries of health personnel especially the medical doctors to cure shortage of medical personnel. A significant majority of locally trained doctors prefer to practice abroad where compensations are more favourable,
- Improve the working conditions of all health personnel,
- Improve service quality which has been declining lately, and.
- Experiment with allowing the doctors the right of private practice, where the government retains a close regulatory role for private service delivery so that it remains in balance with the public sector servicing, as well as exploring ways of funding private health services through a range of insurance and general tax mechanisms.

The reform program takes a long term and holistic view whereby all stakeholders including the SINPF have a role to play. The scheme for improving the compensation of doctors has already been implemented as at January 2005 and the nurses' award scheme was pending approval, which upon endorsement would be effective from the beginning of 2005. The report's authors state that the new arrangement is expected to attract the 40 doctors who are currently working or studying overseas back to the Solomon Islands.

After reviewing the report it was identified that the authors, while noting universal access in Australia is ascertained under Medicare system the financing is in fact predominantly from general taxes. The report notes that the Australian Federal insurance scheme is funded by contributions from government and employees while in reality the scheme is funded out of general taxes only. The Medicare levy is collected from all taxpayers (and not just from employees) which contributes a very small percentage to total government revenue (or as share of total public funded health care) unlike the payroll tax based social insurance systems which are common in continental Europe and transitional economies.

The authors make the following recommendations which relate to social and private health insurance:

- Set-up a compulsory universal health insurance scheme for Solomon Islands to which both employers and employees can contribute,
- The method of contribution should be done along the model of the NPF,
- The proposed universal health insurance would cover basic medical costs for its members such as private doctor consultation fees and hospitalisation costs,
- Set-up a Commission, which will be charged with the responsibility of

- administering universal health insurance funds, and
- The government should buy out the foreign owned shares in Solomon Mutual Insurance and become a joint government and NPF owned company, and ultimately the new company could develop private health insurance products and offer them to the market.

The last recommendation is currently not feasible given that the business license of Solomon Mutual Insurance has been suspended. The first four options on the other hand are critically important as they relate to the adoption of social health insurance in the country and should be pursued with as the social insurance model is supported by most international agencies including WHO and ILO.

As a strategy, the reform proposal suggests a special committee be established to seek support from external donors and involve representatives from all key stakeholders such as Public Service Department, Prime Minister's Office, MOF, Ministry of Foreign Affairs, the Attorney General's Chamber, the Controller of Insurance, MOH and the associations of medical, nursing and paramedical practitioners.

9.13 Recommendations

1. The government of Solomon Islands should consider the recommendations of the Fakarii and Tuhanku submission focusing on the universal health insurance options.
2. The special committee as recommended should be set up to investigate a range of issues including the financing of health care which would be funded from general taxes and health insurance premiums which the SINPF would be the collecting agency.
3. Developing private health insurance should be given a lower priority at the moment.

9.14 Implementation plan for expanding cover

In this section, we present a tentative implementation plan for Pacific Island countries under this review to introduce social health insurance and/or to expand social security benefits to include health.

Firstly, there are two broad approaches to stage an implementation plan for the expansion of insurance coverage:

- Expanding coverage to various population segments: formal/informal, rural/urban, and level of income in population targeting. (Referred as width of coverage)
- Expanding the breadth (scope) of health benefits: This considers issues like what benefits would be provided and paid by the government, what would be paid by the social health insurance scheme as well what services at primary, secondary and tertiary level would be covered by these two main financing agents. (referred to as depth of coverage).

The two approaches are not mutually exclusive. It may well be considered to expand health insurance to the formal sector first with a narrow benefit package of acute hospital in-patient care only, assuming that the relatively high cost nature of these events would allow sufficient financial protection to the covered persons.

Secondly, policies can be engineered in a coherent way by sequencing of the key interventions; this would ultimately impact on the perceptions of the general public about health care and communicate the policy maker's chosen solutions which address them. The following sequence is complementary to the two broad approaches described above:

1. Introducing compulsory health insurance for the formal sector,
2. Introducing user fees, often commensurate with the actual cost of care for selected services,
3. Establishing social safety nets to protect the poor,
4. Introducing voluntary health insurance to the rest of the population, and
5. Gradually integrating all schemes under a single risk pool and improving the breadth of coverage.

Coherent as well as sequenced strategies have been implemented in many countries. In Vietnam for instance the government introduced broad-based user fees simultaneously with social health insurance for the formal sector starting with the civil servants and state owned enterprise employees. The policy on user fees communicates to the general public that health

care which was previously free is no longer so. However, this was not implemented to displace tax-funded health care altogether which dates back to the times when the country organized its policies along socialist lines.

The safety-net policy aims to provide financial protection for some segments of the population who are not part of the formal sector social health insurance scheme. Preferably, and often deliberately by the legislature, fee exemptions are applied to protect the poor and disadvantaged (or those with no capacity to pay) from the financial burden of user fees.

In the fourth phase voluntary health insurance schemes are introduced for the rest of the population, especially the informal sector for them to join pre-payment schemes instead of being subjected to high user fees at time of illness. The voluntary farmer scheme of Vietnam which has originated from the core principles of community based health insurance is now a full-fledged government run health insurance scheme covering more than 600,000 people (2005). Before this scheme was developed, students had been voluntarily insured for more than a decade which had generated sufficient know-how to the implementing agencies for expanding coverage.

It has been evidenced in many supply-side funded systems that user fees, regardless of their magnitude, play a role in directing the subsidies to the relatively well off who can afford them. In the absence of social safety nets, user fees create complexity and unfair burdens to those that have no financial protection. Ideally the second (introduction of user fees) and third (setting up social safety nets) interventions should be done simultaneously in order to protect the population from falling into poverty due to ill health.

For Pacific Island countries, a similar sequencing pattern of policy initiatives is recommended. Extending social health insurance can be planned by starting from the formal sector, or specifically the provident fund members. In the second stage, the governments may give some price-signals to the public by introducing user charges to some services. This should not be posited with an aim to introduce cost-recovery as an alternative financing mechanism to that of general taxation. Fees can be introduced to low-volume health interventions which do not place unfair burdens on the relatively sick and high volume users. Private consultation rooms, diagnostic services,

private wards and non-essential drugs can be considered under this category in order to generate demand for better quality health care. This may pave the way towards more insurance participation (demand) once they are on offer.

Thirdly a government funded social safety net can be developed for the poor and disadvantaged. In terms of income distribution classification, this safety net should ideally cover the lowest income quintile or the poorest one fifth of the country. All elderly persons with or without retirement security can be considered next, assuming those that have no retirement income would be eligible to the government funded social safety net developed during the second phase.

At the end of the third stage, the remaining population without health insurance cover would normally come from the income distribution classes of quintile 2 (lower-middle), quintile 4 (upper-middle) and quintile 5 (rich). The formal sector or provident fund members often represent quintile 3 (middle income) and part of quintile 4 (upper middle).

Usually members of the upper two income quintiles who are not part of the formal sector (provident fund members) are the most reluctant to be part of a social pooling scheme. Given their level of incomes, the members of these groups prefer to self-insure, obtain health care mainly from private providers and pay out-of-pocket when a need arises. The second phase of interventions is in fact developed to tap into revenue that can be generated from this demographic group.

The group from the informal sector, which is different from subsistence farming and fishing communities is the hardest population segment to expand social insurance cover. The policies to include them in a national insurance scheme need to take some other considerations into account, the most important of which is their level of direct and indirect tax contributions. If they are considered as being lightly taxed or untaxed which often is the case, then the only possible way to encourage insurance participation is through voluntary means. However, the level of voluntary participation will depend on the level of user fees imposed by public and private providers.

If social safety nets are well established to protect the poor, as has been suggested under the third

phase, it may well be considered to impose high official fees to create demand for voluntary health insurance. The level of user fees on the other hand has to be highly commensurate with the level of service quality. If service quality at public owned units is low, then imposing high user fees will simply drive high income groups out into private, including overseas treatment if the acute care specialty is only available within public hospitals.

It is envisaged that, expanding health insurance to the relatively well-off populations will probably be an issue after ten years of social health insurance experimentation in the Pacific. It is recommended that the policy makers of the project countries should prioritise the formal sector and the poor and disadvantaged segments first.

The final phase can be called *Integration Phase* which is expected to be some five to ten years away from the implementation of first phase. Integration involves gradually moving the three separate schemes; the formal sector health

insurance, social safety nets and the voluntary health insurance members under a single risk pool and possibly under a single administration. This *one roof* strategy is what Turkey has embarked on after half a century of experimenting with four separate schemes with disharmonised health benefits. If the schemes run under separate administrations, it is highly likely that they would evolve in different ways where some segments may have more comprehensive or better breadth of coverage (i.e. the formal sector) while the others are provided with limited health benefits (i.e. the social safety net beneficiaries). This path would foster inequalities between people covered under separate schemes and generate inequitable distribution of health service consumption.

In order to strengthen solidarity which stands at the core of social health insurance, integration should be the ultimate goal. Once the schemes are fully integrated under a single risk pool, it is easier for the policy makers to harmonise the benefits as well as evaluating the option of expanding the breadth of coverage.

Chapter 10 Social Health Insurance in Solomon Islands

10.1 Introduction

This chapter outlines policy options for health financing reform for the consideration of the key stakeholders and Cabinet Ministers. It has been crafted with the input of representatives of Public Service Department, National Provident Fund and Ministry of Health. While a balanced approach was taken to build consensus on key policy reform issues, the views, suggestions and recommendations belong to the authors and reviewers and may not reflect the views of the organizations they represent. The proposal is presented in *Draft* form for all key policy bodies and stakeholders to undertake further policy debate following which a final version would be endorsed for Cabinet approval.

10.2 Reform history

Health reform has been on the government's agenda for quite some time and successful outcomes have been obtained with regards to improving the earnings of health care workers, nurses and doctors in particular. The donors have shown good commitment for health in the medium-term and it is expected that external support for institutional strengthening and recurrent budgetary top-up for health will continue up until 2010 and possibly beyond.

A number of reform options were developed and put forward which can be summarised as follows:

- Introducing *right-of-private practice* to public sector doctors,
- Infrastructural development of an autonomous clinical centre with better health equipment and facilities which would contract with the government, private firms, insurance agencies and other financing agents, and
- Introducing a universal health insurance scheme similar to Australia's Medicare along the lines of national provident fund for the formal sector and gradually expanding population coverage.

We believe some of these reforms relate to *provision of care* and some to *financing of health* with major overlaps. Therefore we propose an integrated and coherent reform proposal *in draft*

and recommend a technical committee to finalise it.

10.3 Main objectives of the reform program

The reforms covered in this proposal aim to achieve a number of key goals in the next decade. In summary:

- Improving earning levels and working conditions of health personnel,
- Attracting more well-trained medical personnel to the country,
- Improving service quality at all levels of health care,
- Instigating a more balanced public/private mix for health service provision while ascertaining public funding would retain as the main source of health finance rather than private out-of-pocket financing,
- Introducing social health insurance as a top-up source of income for the health system primarily aimed for creating a more sustainable source of finance once donor commitments reduce over time,
- Establishing output-based purchasing arrangements with the objective of improving health outcomes for the population as a whole, and
- Institutional strengthening of health service and financing policy bodies such as Ministry of Health and National Provident Fund.

10.4 Current policy Context and considerations

10.4.1 Level of health spending

Health expenditure data and its break-down in Solomon Islands are limited. On a time series basis, the only information is provided by WHO national health accounts estimates. Accordingly current health spending is at sustainable levels of around 5 per cent of GDP with very low out-of-pocket payments (3.5 per cent of total health spending). In fact most health services are free including hospital in-patient care. However government's resources for health care are fairly stretched claiming some 12 per cent of total government expenditure.

Table 10.1 Ministry of Health medical services budget

<i>Ministry of Health and Medical Services Budget 2005</i>			
	Annual Budget	Ytd Budget	Ytd Actual
Labour Related	45,460,431	34,095,323	32,208,053
Non-labour Related	41,638,152	31,228,614	30,762,342
Total	87,098,583	65,323,937	62,970,396
Less Capital	2,033,620	1,525,215	810,129
Total Recurrent	85,064,963	63,798,722	62,160,267

As government revenue is topped up by external assistance and borrowing (effectively reducing health's share of total government spending), based on our estimates, government revenue from direct and indirect taxes is around 28 per cent or almost one third of total revenue.

Data on public-funded health care expenditure is shown in Table 10.1⁵⁸. Current budgetary data indicate SBD 85 millions being planned for recurrent spending and SBD 87 millions for total health spending including major capital works for the National Referral Hospital Stage 2. Year-to-date budgetary data shows some 2 per cent of the planned recurrent budget has been underspent as at the end of the third quarter. Planned major capital spending is behind budgetary schedule (by 35 per cent underspent) with total government health spending being 3 per cent underspent. Some 52 per cent of year-to-date recurrent spending is estimated to be labour-related the remaining being non-labour.

10.4.2 Level of service access

While government's share of health expenditure is reasonably high, the service delivery is stretched to its limit⁵⁹. Occupancy rates at the National Referral Hospital in Honiara are well above 75-80 per cent and in some clinical wards exceeding 100 per cent due to high patient throughput. The emergency department caters for both emergency and outpatient care which calls for efficiency improvements. Waiting times for outpatient care are often long. Many patients especially those from outer islands stay until full recovery due to lack of post-acute beds. Average

length of stay is relatively short, around 6-7 days although the maternity ward is the busiest and is almost operating as a day-only ward. Following labour, most women are discharged on the same day to allow other waiting patients to be admitted. Some patients are admitted to adjacent wards of other clinical specialty when allocated beds within a clinical ward are insufficient.

While the national referral hospital is operating at high levels of efficiency, the same is not quite true for the 9 provincial hospitals. These hospitals provide mainly general medical care and undertake surgical interventions of trivial nature. Below them, Area Health Services and Rural Clinics provide outpatient medical care mainly at primary level. Kukum Area Health Service being a nearby Honiara suburb is one of the busiest. Rural clinics are often serviced with nurse practitioners who can prescribe medicines and provide midwifery care.

Solomon Islanders generally appear to be happy with the level of health services and appear to be modest in their expectations on quality and service.

10.4.3 The role of voluntary medical insurance

Given this contextual description, some segments of the population value better service access. This is evidenced from member based organizations providing voluntary medical insurance such as SINTA (Teachers Association) and SINPA (Police Association) member funds. Solomon Mutual Insurance (SMI) life-cover has a medical supplement (which is compulsory for all persons that purchase life cover). All of these schemes have a focused benefit package: Private medical consultations and out-patient care including diagnostics, ambulatory medical drugs and overseas treatment when needed. Private consultations are preferred in order to avoid long waiting times at public owned facilities.

10.4.4 Is there room for social health insurance?

This is an important policy consideration which needs to be analysed in great detail.

We do not recommend that Solomon Islands should completely replace the general tax-funded health system with social health insurance. Social health insurance is only recommended as a top-up

⁵⁸ Information in this table is summarised from preliminary figures provided by the Ministry of Finance. The labour, non-labour and recurrent/capital spending shares are based on our interpretation of accounting data and may contain minor classification errors.

⁵⁹ Information in this section is based on verbal discussions we have made with experts working on AusAid funded 'Health Institutional Strengthening Project'.

option to cover for some health benefits which contributing members would value such as prompt access to services without waiting long queues, high quality care or even private care and overseas treatment when needed.

At the moment, we feel there are potential gains for social health insurance to be introduced for the formal sector especially the SINPF members on a compulsory basis and non-SINPF members on a voluntary basis. For provident fund members, we do not recommend a *medical savings accounts* type of a health scheme which is being discussed in Samoa. The aim is to create a pooled fund where all members contribute according to their ability to pay yet become entitled to health services they need, on an equal basis.

10.4.5 Data and methods

The proposal contains some estimates on likely effects of new health financing reforms such as introduction of health insurance or a *Medicare Levy* on workers' pay. Data on average monthly contributions were obtained from SINPF members database and simulations were conducted to evaluate their impact on revenue and expenditure. Data on health service utilisation is not readily available, although verbal discussions with foreign experts and SINPA and SINTA health insurance schemes have provided us with sufficient insight on what sort of benefits can be provided through health insurance, vis-à-vis general tax-funded benefits available to all citizens.

Scenario modelling techniques were applied to evaluate alternative policy options to make decision-makers better informed. These are presented in further sections of this chapter.

10.4.6 Medical insurance scheme for formal sector SINPF members

Given the policy context, we recommend an affordably low contributory scheme with a well-focused benefit package which would serve as a growth engine for further improvements in availability of health services and quality improvements. It is recommended that all SINPF active members and their legal dependents should be covered on a compulsory basis and the rest of

the population should be offered health insurance cover on a voluntary basis.

(i) SINPF member profile

SINPF has 22-23,000 active contributory members. The SINPF had experienced a sharp fall in membership following the civil unrest. However following the RAMSI initiative, the political situation is slowly stabilising and formal sector employment gradually rising. This is having a positive yet fairly subtle impact on return-SINPF members and new job entrants.

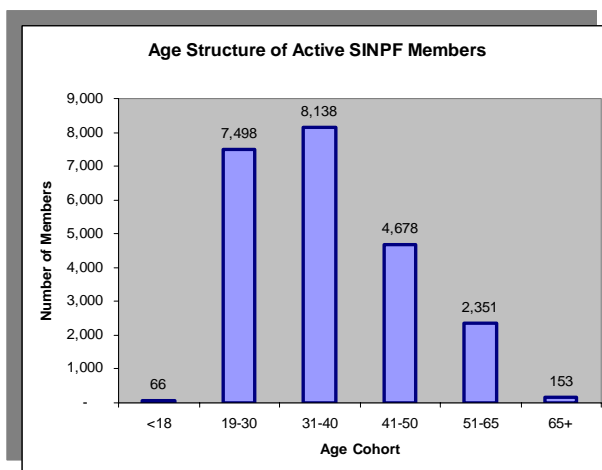
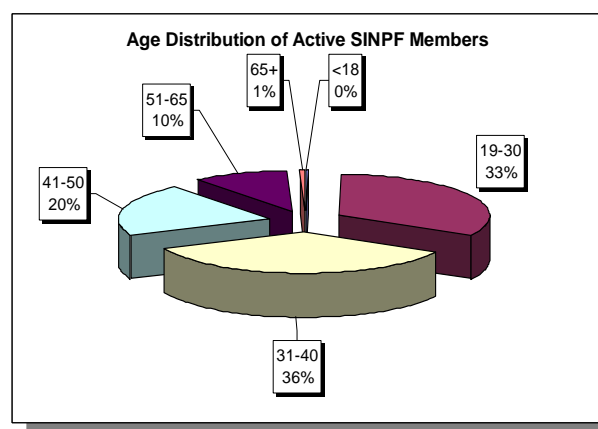


Figure 10.1 Age structure of SINPF members

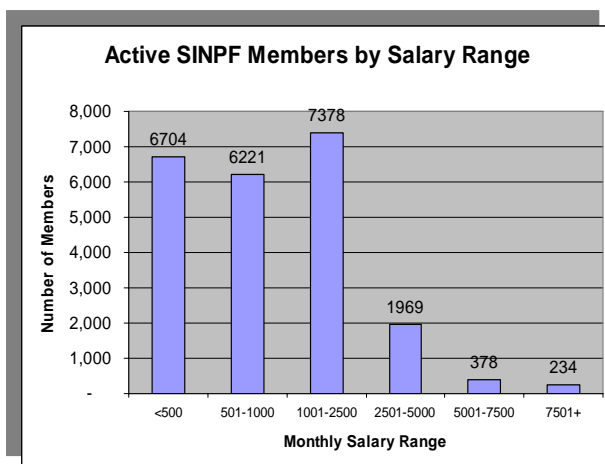
Figure 10.2 Age distribution of SINPF members



SINPF membership is generally very young (figure 10.2). 70 per cent of SINPF members are below the age of 40, shares of “19-30” year olds being 33 per cent and “31 to 40” year olds 36 per cent out of total contributors (figure 10.1).

One third of active contributors earn very low salaries, less than SBD 500 per month (*figure 10.3*). Slightly more than one quarter, (27 per cent) earns between SBD 500 to SBD 750 per month.

Figure 10.3 SINPF members by salary



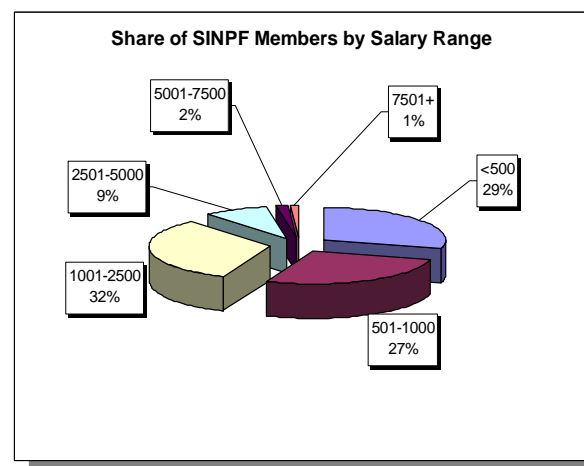
Only about 12 per cent of active SINPF members earn more than SBD 2500 per month and one third are considered to be middle-income earners about SBD 1000-2500 a month (32 per cent).

The income distributions are based on individuals, as we do not readily have information about families with double-income earners or where both partners are SINPF members, or a live-in working age child and working age parent(s), or both SINPF members.

10.4.7 How much to contribute?

This will be a key policy debate issue yet given the low level of salaries and we recommend no more than 3 per cent of salary and wages for medical insurance. In fact as we will present in further sections, 2.5 per cent of contributions would raise around SBD 8-9 million, which is a substantial sum, given that total health spending is estimated at about SBD 87 to SBD 90 million. It is recommended that if this contribution is shared as 1.5 per cent by employers and 1 per cent by employees, the total retirement and health contributions would be 15 per cent of monthly earnings.

Figure 10.4 Share of membership by salary range



The retirement contributions in Solomon Islands are lower than in Fiji, Kiribati, Tuvalu, which are 16 per cent, 15 per cent and 20 per cent respectively. Only Vanuatu (8 per cent) and Samoa (10 per cent) collect lower contributions. While some of these countries have much higher incomes than Solomon Islands, the Samoa National Provident Fund has proposed 6 per cent payroll deductions for a health scheme which has already been approved by the government, to bring total payroll contributions to 16 per cent. In our opinion, and given the lower level of incomes in Solomon Islands, a 2.5 per cent health scheme contribution would be affordable by most employers and salary and wage earners.

10.4.8 Shift from savings approach to risk-pooling

The real issue which various stakeholders need to consider is that health contributions, unlike the current retirement savings are not credited to member's account but pooled in a separate health insurance fund. This is a major paradigm shift which all stakeholders need to comprehend and acknowledge. SINPF would then be administering a scheme where proportional contributions of members serve only for retirement income security; but health risks are shared across all contributors where high earner members and households with double or multiple earnings would be subsidising the health costs of low and single income families. With the introduction of health insurance, SINPF would gradually evolve from an individual account based savings agency into a social security organization. This follows international trends

where most provident funds outside of the Pacific islands have already converted to social insurance schemes.

10.4.9 Equity and fairness considerations for contributions

For very-low income earners and very-high income earners, special policy considerations can be taken into account such as, exempting some low income families from health contributions and placing a contribution ceiling on high income earners.

For example all SINPF members earning less than SBD 500 can be exempted from a medicare levy while still being granted health insurance entitlements. Likewise, a contribution ceiling could be placed on those who are on very high incomes, which would effectively cap total premiums. For instance, one policy may suggest people earning more than SBD 5000, to pay a maximum of SBD 1500 and not more.

Different business rules can be engineered for exempted categories, high income premium-capped members and single and double/multiple income households. We have developed alternative scenarios for measuring the likely impact of these categories on total revenue that can be raised and their distribution across income groups.

10.4.10 Impact of health insurance contributions on government finances

If the proposed *Medicare Levy* goes ahead, the government, on behalf of all civil servants, would be contributing the employer contribution. According to reasonable estimates there are about 11,000 civil servants which is almost half of total active SINPF membership. Access to information on payroll expenses was not readily available; however, estimates based on monthly outlays shows a total payroll of around SBD 13 million. That would require SBD 2.3 to SBD 2.5 million per year at 1.5 per cent employer contribution rate. This as we shall discuss later would roughly equate to 30 per cent of total revenue of health insurance.

One common myth about social health insurance is that the government would be saving money by substituting general tax funding for health, with social health insurance. This is not true as part of

the cost of premiums would always fall on the government. The payroll costs are direct whereas contributions on behalf of the poor, disadvantaged or other categories of people would be indirect, and has to be assessed separately. Given the fact that all such persons are covered by the tax-funded safety net, the focus should be on direct payroll costs which include *Medicare Levy* in labour related government outlays.

The issue will be about *how this additional cost would be absorbed* and it will require careful debate. If there is insufficient government revenue and a budget deficit is likely, one approach could be to cut other line items, especially non-labour related budgets of each of the departmental portfolios on a pro-rata basis. Another approach could be to cut the government *medicare levy* cost from the health portfolio by an equal amount on grounds that, this cost would flow-through to the health system as a revenue stream through the purchasing arrangements between the health insurance agency and service providers. The former approach should be the preferred as the latter option effectively penalises the health portfolio. The idea behind social health insurance is to institutionalise it as another source of finance for the health system. If the health portfolio is reduced, then the likely quality improvements expected from this reform may be compromised. On the other hand, the net impact on health service provider revenue will always be budget-positive as more than 70 per cent of Medicare levy revenue will be sourced from the private sector and employees.

10.4.11 Which benefits to cover?

Given that all citizens are entitled to virtually all health care, the main consideration would be whether any financial protection is needed to reduce out-of-pocket payments of households facing catastrophically high-cost health ailments, or such that require hospitalisation and surgical intervention. In Solomon Islands, despite budgetary constraints, all citizens are financially protected against high cost health care episodes. Unlike developing and least developed countries where medical practitioners and healthcare workers seek official or unofficial payments, no such practice or even a gratuity type of payment exists in Solomon Islands.

In many other countries this is prevalent and it requires large negative externalities that policy

makers find difficult to correct. Furthermore, the Solomon Islands government even subsidises transport costs of outer island residents should they need treatment at National Referral Hospital. Even indirect costs of health care are being funded; effectively removing all financial barriers to access.

As *financial protection* is not the main object of introducing health insurance, policy makers have to define its main objectives. As we discussed above, where there is potential for introducing health insurance to facilitate prompt access to higher quality health services. In practical terms, those that are covered by health insurance would mostly experience reduced waiting times, both for inpatient and outpatient care. More efficient health care services can assist in promoting improved productivity especially in the formal sector workforce.

For in-patient care, a cautious approach needs to be exercised. It is not equitable or egalitarian to allow some segment of the society to have priority admission over others for identical types of health service or resource. In other words, public beds/wards in public owned hospitals should not be in competition with contributory-insured⁶⁰ and government-insured persons. This should be resolved by the commissioning of new beds or even a private type facility (clinical centre), which would be funded from purchases made by insurance agencies, private firms, households/individuals or in some cases, the government as a third party payer rather than a primary funder of the facility.

For out-patient care, the ideal is to have quick access to a private practitioner or a government employed doctor who is allowed *right of private practice*. In both cases, the ideal outcome is to reduce queues at public-owned health units so that workloads of health personnel are moderated; to enable better patient responsiveness especially for those that have very low capacity to pay. If patient queues are reduced at public facilities by outsourcing services from the private sector or through right-of-private practice, the amount of time spent on other patients would go up and responsiveness would improve. This should only

be permitted if sufficient medical workforce is maintained to service at public facilities. Further caution needs to be exercised that doctors' time at private practice is not left *idle* or else efficiency improvements would be reversed and non-contributory patients have little access to doctors at public practice. One of the aims of these integrated service delivery and financing reforms is to attract more doctors to the country once financing through health insurance is available. There has to be mutual-exclusivity when defining tax-funded and insurance funded benefits as summarised below:

Table 10.2 Potential benefit coverage

Government Funded Health Benefits	Insurance Funded Health Benefits
<ul style="list-style-type: none"> • In-patient care public hospitals/public ward stays • Primary and secondary level outpatient care including diagnostic at public owned health facilities • Primary dental • Essential drugs • Medical evacuation overseas for locally unavailable services 	<ul style="list-style-type: none"> • Private hospital in-patient care • Public hospital private ward stays • Specialist consultations with private practitioners and private diagnostic services (pathology, medical imaging etc) • A broader benefit-paid drug list covering ambulatory medical drugs excluded from the essential drug list • Specialist dental and optometric benefits • Elective surgery • Elective overseas referrals

It is not envisaged that all such benefits would be included once the insurance scheme becomes operational. However it is clear that, the main object of health insurance in Solomon Islands would be on the *outpatient care*.

10.4.12 Estimated population coverage

Health insurance as explained, would cover the primary contributor and his/her legal dependents. This is currently applied to SINTA, SINPA and SMI voluntary schemes. We made an estimate of the average number of dependents per main contributor to find out what percentage of the population would be covered by the proposed health insurance scheme (*table 10.3*). Accordingly, upon inception, the social health insurance scheme can reach one fifth (20 per cent) of the population on a compulsory basis. This is a fairly reasonable coverage ratio given the fact that less than half of total SINPF members are currently active.

⁶⁰ By this we mean those that have made a household or personal outlay such as a compulsory or voluntary health insurance premium to an insurance agency referred as "contributory type members" as different from "non-contributory" or whose contributions are made by the government through the taxation system, whether they have paid taxes or not.

Table 10.3 Estimated SHI coverage**Estimated SINPF Formal Sector Health Insurance Coverage**

Age Cohort	Main Members	Dependents	Total Estimated Coverage	Avg Number of Dependents
<18	66	36	102	0.55
19-30	7,498	19,374	26,872	2.58
31-40	8,138	27,801	35,939	3.42
41-50	4,678	18,366	23,044	3.93
51-65	2,351	5,757	8,108	2.45
65+	153	120	273	0.78
Grand Total	22,884	71,454	94,338	3.12
Total Population (2005 Est.)			471,017	
Estimated Health Insurance Coverage			20%	

We have not made an estimate about voluntary take up rate from non-active 24,540 SINPF

members. However if the health scheme turns out to be successful, in other words it provides good value for the members, it may well be possible that non-active SINPF members may gradually opt for voluntary coverage. From the outset, prospects for a formal sector health insurance scheme are fairly positive for the government to seriously consider its introduction.

10.4.13 Estimated amount of health insurance revenue

We have considered a number of policy scenarios for estimating the likely amount of health insurance revenue which can be raised from active SINPF members. These are now discussed in more detail.

Table 10.4 Medical policy assumptions**Medicare Levy Policy Assumptions**

Exemption Threshold	\$	501	Shared by	
Contribution Rate		2.50%	Employer	Employee
Income Threshold for Contribution Ceiling	\$	5,000	1.50%	1.0%

Data						
Salary Range	Number of Members	Total Annual Salary and Wage Earnings	Maximum Revenue from Medical Insurance (at full participation without Exemptions)	Medical Insurance Revenue (with Exemptions and Contribution Ceilings)	Distribution of Annual Salary by Salary Range	Average Monthly Salary
<500	6,704	\$ 18,787,758	\$ 469,694	\$ 281,818	5.17%	\$ 234
501-1000	6,221	\$ 54,617,840	\$ 1,365,446	\$ 1,365,521	15.03%	\$ 732
1001-2500	7,378	\$ 136,726,936	\$ 3,418,173	\$ 3,418,190	37.61%	\$ 1,544
2501-5000	1,969	\$ 79,888,116	\$ 1,997,203	\$ 1,997,206	21.98%	\$ 3,381
5001-7500	378	\$ 26,936,220	\$ 673,406	\$ 567,000	7.41%	\$ 5,938
7501-10000	90	\$ 9,351,764	\$ 233,794	\$ 135,000	2.57%	\$ 8,659
10001-20000	108	\$ 17,319,244	\$ 432,981	\$ 162,000	4.76%	\$ 13,364
20001+	36	\$ 19,880,367	\$ 497,009	\$ 54,000	5.47%	\$ 46,019
Total	22,884	\$ 363,508,245	\$ 9,087,706	\$ 7,980,735	100%	\$ 1,324

Table 10.4 above summarises the total revenue base according to salary range of active SINPF members. Total salary and wage earnings are estimated by annualising the latest monthly retirement savings contributions. The last two columns show distribution of annual salary, and wage earnings and average monthly salary within each salary band respectively.

Table 10.5 summarises data of low income earners. As can be seen, more than half (58 per cent) of estimated total salary and wage earnings belong to members who earn less than SBD 2,500 a month. This group on the other hand represents

almost 90 per cent of total active SINPF membership with a mean salary of SBD 862 per month.

Table 10.5 Low income earners**Summary Data of Low Income Earners**

(Those earning 2500 per month and below)

Total Wage and Salary Payments (Annual)	\$ 210,132,534
As % of Total Salary and Wage Earnings	58%
Total Number of Members	20,303
As % of total SINPF Active members	89%
Mean Salary per month	\$ 862

Table 10.6 Middle income earners

Summary Data of Middle and High Income Earners	
(Those earning more than 2500 per month)	
Total Wage and Salary Payments (Annual)	\$ 153,375,711
As % of Total Salary and Wage Earnings	42%
Total Number of Members	2,581
As % of total SINPF Active members	11%
Mean Salary per month	\$ 4,952

Table 10.6 shows the summary data of middle and high income earners. As can be seen, this group receives 42 per cent of total formal sector salary and wage distributions yet accounts for only 11 per cent of active SINPF membership with a mean salary of approximately SBD 5000 per month.

The middle and high income group on average, earns six times more than the low income earners. The central policy issue is to raise revenue from these two distinct groups with a large income disparity in an equitable way that does not hurt the low-income earner, while at the same time does not over-burden the high-income earner. High income earners are also paying the bulk of income taxes and due to their higher consumption power also pay higher indirect consumption taxes

which ultimately support all government services including health care.

In the first scenario, we have made two health insurance revenue calculations; One is a flat 2.5 per cent medicare levy for all members without exempting the lowest earners and without placing any contribution ceilings. This would raise just above SBD 9 million per year as seen in the fourth column of Table 10.4 above. Next we incorporated a low-income medicare levy exemption policy that commences when a SINPF member earns more than SBD 500 a month. Thirdly we defined a high income threshold of SBD 5000 per month which places a medicare contribution ceiling of no more than SBD 1500 per year (SBD 5000 * 2.5 per cent * 12 months). Note that the exemption policy applies only to the *employee* (1 per cent of earnings). The employer contribution of 1.5 per cent of earnings would still be levied. These are summarised at the top part of table 10.4 under *Medicare Levy Policy Assumptions*. With these changes incorporated, total estimated revenue from health insurance would reduce to just under SBD 8 million or one million dollars less than at full participation. (See fifth column of table 10.4 *Medical Insurance Revenue with Exemptions and Contribution Ceilings*).

Table 10.7 Medicare levy estimates

Salary Range	Average Annual Medical Insurance Contribution (at Full Participation without Exemptions)	% of Medical Insurance Revenue (at Full Participation without Exemptions)	Average Annual Medical Contribution per member (with Exemptions and Contribution Ceilings)	Shares of Total Medicare Revenue with Exemptions and Caps	Effective Medicare Levy
<500	\$ 70	5%	\$ 42	4%	1.5%
501-1000	\$ 219	15%	\$ 220	17%	2.5%
1001-2500	\$ 463	38%	\$ 463	43%	2.5%
2501-5000	\$ 1,014	22%	\$ 1,014	25%	2.5%
5001-7500	\$ 1,781	7%	\$ 1,500	7%	2.1%
7501-10000	\$ 2,598	3%	\$ 1,500	2%	1.4%
10001-20000	\$ 4,009	5%	\$ 1,500	2%	0.9%
20001+	\$ 13,806	5%	\$ 1,500	1%	0.3%
Average	\$ 397	100%	\$ 349	100%	2.2%

In table 10.7 above we summarise the distributional impact of this policy on the earnings and health insurance contributions of SINPF members. Without exemptions, the lowest income group would contribute on average SBD 70 per year for health insurance. In total this would merely represent 5 per cent of total

medical insurance revenue. If no contribution ceilings are imposed, the two highest income earners (Range 10000-20000 and 20001+) would contribute about SBD 4000 and SBD 13,800 per year respectively. Without contribution ceilings imposed these two groups would contribute 5 per cent of annual medicare levy revenue each and as

can be seen, it would be fairly unreasonable to penalise them at these nominal amounts.

With the proposed contribution ceilings, the share of these two income bands would fall to 2 per cent and 1 per cent respectively (see fifth column in table 10.7 above *Shares of Total Medicare*

Revenue with Exemptions and Caps).

Table 10.8 Medicare contribution summary

Summary Data of Low Income Earners (Those earning 2500 per month and below)	
Total Health Insurance Contributions	\$ 5,065,529
As % of Total Medicare Levy Revenue	63%
Total Number of Members	20,303
As % of total SINPF Active members	89%
Mean Contribution per year	\$ 249
Summary Data of Middle and High Income Earners (Those earning more than 2500 per month)	
Total Health Insurance Contributions	\$ 2,915,206
As % of Total Medicare Levy Revenue	37%
Total Number of Members	2,581
As % of total SINPF Active members	11%
Mean Contribution per year	\$ 1,129
Mean Contribution Multiple (High/Low)	4.5

Table 10.8 summarises *medicare levy* contribution by the low-income (*upper section*) and middle/high income earners (*lower section*) respectively, after exemptions and contribution ceilings are imposed. Health insurance contributions of low income earners would raise 63 per cent of total *medicare levy* with a mean annual contribution of about SBD 250 per member. Note that this contribution is for the household (assuming single breadwinner) and covers dependents as well. Middle and high income earners would account for the remaining 37 per cent of *medicare levy* revenue with a mean contribution of SBD 1129 per year. As these income groups on average earn six times more than the low income earner, their medical insurance contributions would then be about 4.5 times more even with a contribution ceiling which caps their annual health insurance contributions at SBD 1500.

The mean medical insurance contribution for the whole formal sector (SINPF members) would be about SBD 350 per year. Now let's put this figure in perspective and compare it with the other two voluntary schemes that currently operate in the country. SINPA (Police Association) members currently contribute a flat SBD 25 per fortnight or

about SBD 653 per year. In retrospect, this contribution-being *flat* is regressive (*See table 10.9*). For low income police force employees who earn SBD 450 per month, the contribution represents 12 per cent of annual earnings but for high income police force earners, it represents 3 per cent. As the scheme is voluntary, we do not have data on how many of the low income members of the police force have opted for voluntary membership. However, we believe the odds are rather low as it does not represent good value if 12 per cent of earnings needs to be sacrificed. The 450 voluntary enrolments in our opinion belong to the high-income police force workers.

Table 10.9 Solomon Islands Police medical insurance scheme

Solomon Islands Police Association Medical Insurance Scheme		
<u>Membership</u>		
Total Association members		1300 persons
Participating members		450 persons
Average Household Size		3.55 per h.hold
<u>Revenue and Premiums</u>		
Flat Premium		25 per fortnight
Average Salary (low)		450 per month
Average Salary (high)		1600 per month
Premium expense as per cent of annual income		
	-low	12%
	-high	3%

If the SINPF scheme we are proposing goes ahead with the exemption policy assumptions we have discussed above, the low-income police force would pay no contributions, (being exempted at SBD 500 income threshold) yet still be eligible to health benefits like the contributing members.

The SINTA (Teacher's Association) members on the other hand contribute a lower contribution of SBD 14 per fortnight or about SBD 365 per year. As some SINTA members would also be eligible for *medicare levy* exemptions under the proposed scheme, they would also be net winners if the SINPF scheme goes ahead. The most proposed average SINPF *medicare levy* contribution of SBD 350 per year is about half the premium that SINPA members are required to contribute and even lower than SINTA premiums. Under the proposed contribution policy which is shared between employers and employees at 1.5 per cent and 1 per cent respectively; out of the SBD 350 per year, the employee would contribute 40 per cent of the premium (1/2.5) and the remaining 60 per cent paid by the employer. When most low

income workers are exempted, the potential prospects for the SINPF scheme are reasonable positive.

It should also be noted that both SINPA and SINTA expressed positive feedback for a national health insurance scheme because it is alien to their core business as membership based organisations. The police and teachers member funds would still operate to undertake additional retirement benefits and for making emergency and charitable type of benefits to their members. SINTA on the other hand focuses on scholarships and for providing short term liquidity to large families at the start of the school year. These funds would still operate once the SINPF compulsory health insurance scheme starts.

The last column on table 10.7 shows *Effective Medicare Levy* for each salary range. The lowest income being contributed only by employers is 1.5 per cent. The next three salary ranges up to the contribution ceiling income threshold (SBD 5000), contribute 2.5 per cent and the effective contributions for the higher income ranges fall from 2.1 per cent to 0.3 per cent. This is because the flat SBD 1500 contribution ceiling represents a lower percentage of the member's earnings as incomes go up.

On average, the formal sector average levy comes at 2.2 per cent. In other words, exemption and contribution ceiling policies takes 0.3 basis points off the 2.5 per cent Medicare Levy policy which in dollar terms is about SBD 1 million or roughly 12 per cent less than full participation (without exemptions or contribution ceilings).

10.5 Service provision and provider payments

10.5.1 How to pay health care providers?

This will be an important consideration for the administration of health insurance yet it also relates to the parallel reform on the provision side; allowing *right of private practice* to public sector doctors. We will first discuss the links between insurance and service provision methods and then carry out a budgetary estimate for benefit outlays. Our recommended choice of provider payment method will be finalised after considerations are given to insurance administration.

10.5.2 Current and proposed payment methods

Currently, the doctors are paid a salary and with the latest changes compensations vary from Super Scale 1 for junior doctors, to Super Scale 3 for senior doctors⁶¹. As the benefit package is more focused on out-patient care, it may not be practical to arrange salary type payment to doctors unless the health administration agency specifically contracts with the private doctors. This would be a complex and inefficient solution as it would require the doctor to spend time only with insured patients. According to patient demand a doctor should be able cater for both insured and general (government insured) patients.

One proposed option in Fakarii-Tuhanuku January 2005 submission is to apply fee-for-service method based on a *government-set medical benefit schedule*. This while may appear to be the most practical approach, it needs to be put in perspective that it requires a transaction-based information system to administer benefits. The information on medical visits needs to be shared between the health insurance agency and the provider, which would either be a private doctor or the public hospital which employs the doctor who has *right-of-private practice*.

In Australia, this issue is not a problem because information systems are fairly advanced. Information system capacity in Solomon Islands on the other hand is fairly limited and therefore the current voluntary schemes (SINPA, SINTA and SMI) apply patient reimbursement. Following an insured patients' visit to a doctor and making full payment, the member must lodge the receipts and the benefit amount (total cost less co-payment) is reimbursed to the patient after due process. In other words, the payment method is the same, which is fee-for-service yet the implementation method is *reimbursement* rather than *direct payment to a provider*.

A major drawback with this arrangement is the fact that, member needs to be cash-liquid to be able to finance their health care before the insurance agency will reimburse the expenses. In reality this may be difficult for some members. It is common in many places that people for health reasons borrow from family and friends. The

⁶¹ For more information on the latest changes, see Fakarii-Tuhanuku 20 January 2005 submission to the Cabinet.

settlement period may also place unfair burdens on even the insured unless a payment method is established directly between the health care provider and the insurer.

10.5.3 Putting 'right of private practice' in operation

Given due consideration to complexities in administration, we believe *right-of-private practice* should only be granted for public sector doctors who will have a separate income stream from social health insurance in addition to their salary payment. In other words, public sector doctors at least in the next decade should not be allowed to collect fees directly from patients while doing *right of private practice* within the public owned service delivery units. They should ideally cater for government-insured patients during public practice hours and SINPF-insured persons during private practice hours.

Payments to these doctors should continue to be paid directly by the government through the hospital that employs the doctor. Payments from the social insurance administration should be made directly to the provider (the public hospital) upon submission of an invoice the contractual terms of which should be agreed at the beginning of the year. The contractual terms should be reviewed annually or six monthly. The agreement would establish the minimum and maximum amount of time that the doctor would serve at the clinic during *private practice* hours to serve insured patients. Payments from the social insurance agency to the hospital would be based on an hourly rate which would ideally be higher than the current hourly earnings of doctors at the applicable remuneration. The payment from the hospital to the doctor should be made on a pro-rata basis according to public clinic hours and private practice hours.

The patient times of doctors between public and private practice hours should be rostered by the hospital administration based on amount of patient throughput from the two financing sources. If the hospital outpatient clinic has more government insured patients then doctors should allocate more hours to *public practice*. Likewise, if SINPF insured patient throughput is higher then more hours would be allocated for *private practice*. If the two times are insufficient, then the hospital should aim to recruit more doctors to the system which is one of the main objectives of this reform program.

10.5.4 Private practice on 'sole' or 'group' basis

The doctors should still have freedom to practice privately if they wish; either as a sole or group practitioner. But *public office* should not be used to provide services to general public on a *fee for service* basis. Otherwise the *free tax funded health system* which the population is enjoying will become blurred and the citizens may believe that being poor and unable to afford care and therefore not entitled to health services. This adverse outcome should be avoided in order to retain the positive elements of the current system which is equitable albeit low quality. Quality improvements should improve in parallel as the country's economy gradually develops.

If a doctor wants to practice privately and open his/her own clinic and have a service contract signed with the health insurance agency, this should also be allowed provided that enough insured persons reside in the catchment area where the doctor practices. The same doctor could also have a part-time contract with a public hospital but the employment contract would determine compensation on a pro-rata basis based on amount of hours spent at the public facility. The employment contract should also ensure that he/she provides services to the public-patients free-of-charge.

Note that, for the insurance agency to contract directly with a private provider, there would still be a need for basic patient information to be exchanged between the insurance agency and the provider. As mentioned earlier, the payment method for private visits should ideally not be based on *fee-for-service*. Instead member registration data should be used to calculate an approximate patient case-load which would then determine the contractual terms for how many hours the doctor would service insured patients at his/her private clinic. The contracted amount of patient hours can then be multiplied by the hourly rate and paid to the doctor monthly by the insurance agency. Given these administrative complexities, we still believe, in the interim, social insurance service contracts should ideally be limited to public sector doctors who have *right of private practice*.

The main potential pitfall with sole or group practice is that more doctors may opt for private practice by forgoing their public sector employment contracts all together. This is a

remote possibility as the surgical and general hospital care services would require most doctors to allocate sufficient time to spend with in-patients. There will not be sufficient money in the system from direct private payments and health insurance to employ all doctors at outpatient clinics. A fine balance of doctors' time spent between inpatient and outpatient departments and a fine balance between pay at public and private facilities will gradually develop. If large imbalances are observed, the government, in particular Public Service Department, Ministry of Health, Medical and Nursing Associations and SINPF can take corrective action collectively.

10.5.5 Private hospital and institutional specialist services

At the moment there are no private hospitals in Solomon Islands, but as mentioned in the first part of this chapter, the Ministry of Health has been looking into commissioning a new capital works project to set up an autonomous clinical centre. The central idea about *autonomy* is to make this body contract with the government, private firms, insurance agencies, other financing agents and even walk-in patients to receive funding in return for services rendered. In other words, it aims to separate service provision and financing by removing public *ownership*. Furthermore the project aims to equip the facility with more advanced infrastructure to carry out surgical operations including selected day-only-procedures which are not currently available at the National Referral Hospital. If the investment program goes ahead, cases that would otherwise have to be referred overseas could be carried out domestically.

This proposal needs careful analysis as investing in new health services when government capital spending resources are limited, would have to be sourced from the private sector. One model that has been tried by Samoa is public private partnership in investment planning. The Samoa National Provident Fund, being the public party to the *MedCen* hospital partnership, invested in this private facility which is a for-profit business concern. The provident fund aims for its members to utilise the facility services which would partly be funded from members' medical savings accounts and the health insurance fund which the provident fund will be administering from 2006. Secondly, the provident fund would be receiving dividends from the business concern to credit to members' retirement savings accounts.

Private health care services in general are more expensive than public services, yet they fill in gaps where public investment programs fall short. It would serve the public interest if purchasing agreements from private providers use public sources of finance such as tax and social insurance, the pricing terms of which would be much lower than those charged to individual patients.

The Samoa model can be evaluated for suitability within Solomon Islands policy context to see if a *win-win* agreement can be engineered. If funding is sourced from SINPF and a reasonable share of revenue for the private concern would come from social health insurance, then the facility would serve a larger percentage of the population rather than just the more affluent who can afford these services. The facility may also attract specialist doctors who are outside the country and it may provide an alternative to the population segments that are willing to pay for better quality health services. Availability of higher quality care and financial access through health insurance would make it more attractive for the general population to join voluntary health insurance schemes once they are on offer.

A feasibility study should be conducted on whether private finance can be provided by SINPF to the Clinical Centre. If the SINPF financing is based on a loan arrangement, loan servicing payments (principal and interest) can be deducted from SINPF provider payments assuming that the SINPF social health insurance scheme goes ahead and the clinical centre is contracted by the SINPF Health Unit to provide services to SINPF health insurance members. If an equity/share based financing is considered, then SINPF can be represented in the executive board of the clinical centre and dividend distributions would be made from the profits of this enterprise. The dividend distributions would then be credited to provident fund members who have retirement savings with the fund.

10.6 Resource planning and budgetary breakdown

Data on the use of health services in Solomon Islands is fairly limited even for key information such as total number of hospital admissions in the country. Most reliable data is available for the National Referral Hospital or being prepared by experts taking part in donor-funded institutional capacity building projects.

A key aspect of health insurance is which way the funds would be channelled to the providers and what benefits the funds would be spent on and how. The analysis for resource and budgetary planning shown below is provided to facilitate key decisions on provider payment methods.

In terms of resourcing, we can only establish simple input/output measures such as patient per doctor. Out of roughly 100,000 estimated insured persons including dependents, a typical 2,500 patient per doctor ratio would require the insurance company to purchase 38-40 full-time equivalent doctor services. This can be sourced

from more than this number in fact all 58 doctors in the country could well be contracted on a part-time basis.

The bulk of insurance funds (around 57-60 per cent) are estimated to be spent on medical services and some 30 per cent on drug benefits. While we do not have an authoritative source on rate of service use, we assume members would have 2.2 medical consultations per capita per year. This number would be nearly nil for the young and healthy members, more for the maternity patients, and higher for old age persons

Table 10.10 Resource estimates

RESOURCE AND BUDGETARY PLANNING ESTIMATES		
Resourcing Estimates		Formulae
Total Members-(est)	94,338	A
Optimum Number of Patients per doctor	2,500	B
Required Number of Doctors for Contracting	37.74	A/B
Service Use Estimates		
Medical Consultations per capita (est.)	2.2	C
Annual Medical Consultations	207,544	A*C
Available Doctor Hours	75,508	D=A/B * 23 day *12 mth * 7.25 hrs
Time per consultation (minutes)	21.83	D * 60 min/(A*C)
Medical Services Budgetary Estimates		
Average Remuneration per doctor per annum	\$ 120,000	E
Prospective Medical Services Budget	4,528,224	E*(A/B)
Hourly Equivalent contract amount per doctor	\$ 60	E/(23 day *12 mth * 7.25 hrs)
Break-down of Social Health Insurance Budget		%
Purchases of Medical Services	\$ 4,528,224	56.60%
Drug Benefits	\$ 2,500,000	31.25%
Other Health Benefits	\$ 650,000	8.13%
Administration	\$ 280,000	3.50%
Provision for Reserves	\$ 41,776	0.52%
Total	\$ 8,000,000	100.00%

Based on the required number of full time equivalent doctors for contracting, an estimate is developed for the total amount of medical consultation hours assuming doctors would serve 23 days per month for 7 hours 15min of patient hours per day (excluding weekend and annual leave entitlement). Some doctors would naturally work longer hours on duty, and shorter on some other days, so the total hours would have to be purchased from the hospital which employs them on a rostered basis. Based on this estimate, some 75-76 thousand medical hours would be purchased by the insurance agency to service members which would yield an average of 21-22 minutes per medical consultation. This is much higher than the current estimated out-patient times given resource constraints.

The next step was to establish a benchmark cost per doctor per annum. Assuming SS3 rates would cost the government around SBD 105-116,000

per year, we established a higher amount for additional incentives for right of private practice to be around SBD 120,000 per year. This is rather arbitrary as some clinical specialties such as family medicine would be on a lower remuneration such as SS1 and some senior specialists would be rewarded higher. The final compensations of medical personnel would have to be handled by the contracted provider which is the hospital administration.

The prospective medical services budget would be calculated by annual full-time equivalent medical specialist cost by the number of medical personnel to be contracted, which is roughly SBD 4.5 million. This would yield an hourly compensation rate of SBD 60 per medical hour. This benchmark cost can be used in negotiations with the providers.

The breakdown of the health insurance budget is easier once the bulk of benefits are budgeted for, namely medical services and drugs. The drug spending can be administered with the hospitals as the same procurement mechanisms can be utilised for drug benefits available to insured patients. In countries like Vietnam where insured and uninsured categories of patients regularly visit hospitals, the hospital administrations have established two drug dispensing units; one unit that stocks drugs that are included in the benefit-paid drug list of the insurance scheme and the other for non-insured or government insured persons. The same mechanisms should be deployed in Solomon Islands to avoid a transaction-based pharmaceutical benefit administration.

The estimates above show provisions for other medical benefits such as diagnostic services (around 8-9 per cent of total budget), and an administration of 3.5 per cent of annual health insurance revenue (*see more discussion on insurance administration costs below*). The balancing amount is accounted for as *provision for reserves*.

10.6.1 Co-payments policy

One of the insurance policy tools is effective deployment of co-payments to deter excessive demand. This policy is suitable only if the insurance agency has no lever on controlling service volumes. In all our discussions so far, we recommended a payment method for medical services that would not vary by the volume of services provided by doctors. This would render no need for applying co-payments for medical consultations.

On the other hand, pharmaceutical benefits expenditure would largely be driven by volume and hence there would be an advantage to collect some co-payments from patients for drugs that do not cost more than SBD 100 per script. The co-payment should ideally not exceed 10-15 per cent of script price. For high cost drugs, there should be an effective safety-net for chronically ill patients who are dependent on these types of drugs, or drugs that have low script price but need to be used frequently.

These considerations should best be handled by analysing information on existing drug entitlements of all citizens. It may be possible that the most expensive drugs are mainly administered

for in-patients and hence would be free of charge and those chronically ill may also be entitled to life-saving drugs at present. These considerations would require a different budgetary amount for drug benefits.

In our calculations shown above we have used an international benchmark of 25-30 per cent of health insurance benefit outlays being spent on drugs. This however does not take account of differences in drug prices or per capita income parities. If drugs in Solomon Islands cost more than peer-income countries, then drug benefit outlays would also be much higher. Co-payments would then constitute an essential policy lever for controlling drug benefit outlays.

Co-payments on the other hand bring administrative complexity as claims would have to be processed. For Solomon Islands, we recommend existing drug procurement and dispensing methods to be deployed for insured patients rather than creating new ones, or for reimbursing patients for drugs purchased directly from private pharmacies. The latter option should be considered much later after implementation of the first health insurance reforms.

If co-payments are applied, then the drug dispensing units in contracted hospitals and clinics can provide the drugs to the insured patient by collecting the co-payment at time of dispensing. The provider would then invoice the health insurance agency for the *benefit component* on a monthly basis. The insurance agency would still need to establish some operational controls on drug scripting practices for detecting fraud. In most systems it is common to prescribe drugs when there is little medical need, or prescribe medicines for ineligible persons under the name of an eligible beneficiary. The audit of drug claims by the insurance agency needs to be done monthly by a careful review of total volume and cash amount of benefit paid drugs prescribed and their reference prices that are available from the procurement unit of the contracted party. Effectively, the central idea is to keep drug benefit outlays within the budgetary provisions which should be negotiated at the beginning of each year. Any adjustments to the budget overruns need to be handled by regular reviews.

10.7 Impact of health insurance on service delivery and finance

The budgetary estimates are provided to give a big picture view of what lies ahead once social health insurance is implemented in the country. As explained, the funds would boost total revenue of providers by 10 per cent. The detailed estimates are provided for planning the administrative mechanisms that need to be set up to implement health insurance. That discussion is provided in greater length below.

We are of the view that the scheme is expected to run surpluses in the first 2-3 years of operations during which some patient and provider behaviour adjustments will take place. We do not think the optimum level of medical consultation hours can possibly be purchased in the first year. This should mainly be initially tried on a small scale pilot in a *right of private practice* outpatient clinic dedicated to insured patients at the Honiara National Referral Hospital and gradually expanded as insured patients get accustomed to calling at these units when they need health care.

The estimates show that doctor time per patient will be significantly higher than now where in most places patients have very little or no access to medical personnel at all. While primary care services can be provided as it's currently been done by nurse practitioners, there is a need to create mechanisms for specialist medical consultations and diagnostic services in an efficient manner.

10.8 Administration of health insurance

The question of *Who should administer health insurance?* will be another key debating point of this reform proposal. In brief terms, we need to look at the functions of health insurance and identify which agencies would be best suited to undertake these functions. In our opinion, administration of health insurance, given the population size of the country should be shared.

10.8.1 Revenue collection function

Social health insurance premiums should be collected by a public or parastatal agency which as a minimum has the *trust* of the community. In Solomon Islands the SINPF is best suited to collect the payroll deductions for the formal sector as the agency is already entrusted to

administer retirement savings and they already have the functional set-up to perform this duty.

A separate agency for revenue collection would simply create duplication for employers as they would be paying two sets of payroll contributions to two different agencies. This option should be avoided at all cost.

On the other hand, SINPF is only suited for the formal sector. For the informal sector Solomon Island Mutual Insurance Company (SMI) could be assessed as the agency more suited to develop and market voluntary health insurance products given their past experiences with the *life cover* scheme which includes a compulsory health contingency. The products can be marketed through community channels such as agricultural and fishing cooperatives and even through faith-based organizations.

SMI has recently experienced some regulatory troubles. However, SMI is substantially owned by SINPF and the regulatory problems of the company are expected to be quickly resolved. The Fakarii and Tuhanuku January 2005 submission to the Cabinet has specifically recommended the government consider buying the foreign owned shares in the SMI. This recommendation, if actioned, would make SMI fully owned by SINPF where the dividend distributions would be credited to the formal sector retirement accounts. On most criteria there is sufficient public good that can be obtained from this undertaking, given that SINPF has 20 per cent population coverage including dependents, and a further 22 per cent if non-active members and their dependents are included.

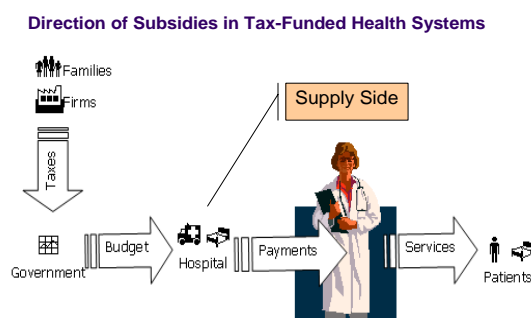
10.8.2 Risk pooling function

This function relates to placing of all health insurance revenue in a common fund for the use of all members based on their health needs as different from benefits payable according to the contributors' proportional contribution to the pool. This is a complicated issue for Solomon Islands as there would be two-risk pooling agencies if the proposed SINPF health insurance scheme goes ahead.

As the *medicare levy* is proposed to be imposed only on the formal employment sector workers and the rest of the population, mainly the informal sector will be exempt, the rest of the

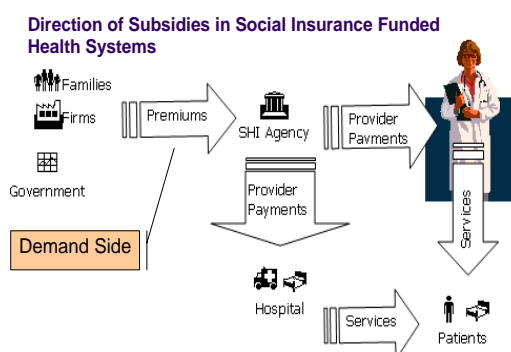
citizens will be risk-pooled under the government's current social safety net funded from general taxes. Accordingly, it can be considered that formal sector will be risk-pooled under a separate fund administered by SINPF and the government safety net will be administered through Ministry of Finance as the current practice dictates.

Figure 10.5 Direction of subsidies in tax funded systems



Figures 10.5 and 10.6 show the directions of subsidies in *tax-funded* and *social insurance-funded* health systems. Tax-funded systems (figure 10.5) channel revenue through the *supply side*, in other words, by paying for the health inputs such as hospitals, clinics beds, drugs and most importantly the doctors, nurses and all other health personnel. This is the current flow of government subsidies applicable in Solomon Islands. In most regards, it functions in a simple way and delivers what it is designed to deliver; bringing health services to the people in a cost-efficient way.

Figure 10.6 Direction of subsidies in social insurance systems



The direction of subsidies in social insurance funded health systems follows a different path (figure 10.6). The same sources of funds such as taxes or insurance premiums are channelled to a *third party payer* or specifically to a social health insurance agency. The government itself would also be contributing on behalf of those who have no capacity to pay. Instead of government paying a budget to a health service provider, the monies are converted into a premium amount and paid to the social insurance agency. This agency then contract with the health service providers (see purchasing paragraph 10.8.3 below) and then makes payments based on current types and respective demand for health services. As the service demand is driven by people, the direction of subsidies is labelled as *demand side*.

The process of integration of the two risk pools will be an evolving one. It may well be appropriate for the Ministry of Finance to establish a per capita amount which can be given to a social health insurance agency and effectively create a single national risk pool. At the moment, the general tax-funded system still operates as a single risk pool, yet this reform program aims to improve the administration of health service provision and health financing by separating these two functions. This will not be a simple matter and is expected to take time.

In the interim however, risks will be pooled separately but health funds from the government budget and social health insurance will be pooled at the provider level. In other words, a government hospital or clinic would be receiving two sources of income yet they would be delivering services to the whole population where the entitlements of the two groups of persons; *government-insured* and *formal sector-insured* will be different. The latter category will enter the health system mostly through private provider system either through sole or group practitioner doctors, or through public doctors who have the right of private practice. The former category would mainly enter through the public system as the current practice.

There may be a concern that the two mechanisms would create adverse reactions, such that the doctors would show propensity to treat more insured patients (in other words engage more in private practice), then spending time on general public patients. Evidence to support this is not yet apparent as the idea is to attract more doctors to the system first by creating an additional source

of revenue. If the time spent per patient improves as more doctors enter the health system, the public patients would also have more time with their doctors. If waiting times continue to be a problem, then there would be an incentive for general public patients to enrol in health insurance schemes on a voluntary basis.

10.8.3 Purchasing function

By and large this is the most important function of social insurance funded systems as the latter two functions exist in all health financing systems, whether tax-funded or not. In brief terms purchasing function means that the insurance agency would contract with health care providers and make payments for the agreed health services that the members are entitled to (benefit package).

As explained in the above diagram, purchasing would imply that the health system would no longer be buying health inputs but it would be buying health outputs, or even better, if it can buy health outcomes. This will be a long-term goal of this reform program which ultimately aims to buy good health for the people, whether they are preventative, promotive or curative.

Depending on the complexities of the health services and products that are available, a parastatal health insurance agency can be set up to administer health benefits, contract with providers and make payments. This is a consideration if existing agencies such as SINPF and MOH have administrative capacity constraints.

In the interim however, we are not in the opinion that this path should be chosen. In our opinion SINPF and MOH can set up a contracting mechanism for payments that would originate from SINPF members' health insurance contributions for services that can be purchased from government owned health clinics and hospitals. Given the fact that less than 60 doctors serve in the country, the payment terms of the key health workforce could easily be developed by the Public Service Department once the guidelines for *right of private practice* are developed.

Payment terms for purchases of private ward services will only come to surface once the MOH commissions private wards within public

hospitals or a new autonomous clinical centre is built.

10.9 Role of Ministry of Health

We are of the opinion that the role of MOH will be very critical for implementing this reform and will also remain important once the process of separation of financing and provision of health care is fully realised. MOH should still set policy on service provision and monitoring as well as making resource allocation decisions. But more importantly MOH should closely work with the SINPF to finalise the terms of contracts (service agreements) and payment methods.

10.9.1 Setting up hospital trust funds

It is believed that the MOH would have to re-engineer and improve the administration of health service funding once a health insurance schemes commences. It may be appropriate to set-up trust accounts for distributing all non-budgetary funding such as insurance and user payments to make payments to the doctors and other health personnel. While we have focused on income of doctors through the insurance arrangement, there has to be incentive-based additional payments made to the other health personnel at the hospitals that are supporting the doctors doing right of private practice. The hospital trust accounts can be utilised to administer the rostering and payments made to the doctors in addition to the salary they receive.

One important aspect of this reform proposal is the *substitution effect* that will become visible once health insurance scheme starts. As more and more of doctor time is allocated to serve insured patients, the government would be making savings as salaries would have to be made on a pro-rata basis. The savings made from labour related budgetary outlays for established doctor positions would then be used to improve earnings of other health personnel. In effect some of the labour related outlays of the hospital which were previously funded by general taxes (budget) would be substituted with insurance funding allowing more flexibility for the hospital administration to modify payment terms of non-doctors such as nurses and other health staff.

The hospital trust funds can also exercise autonomy with regards to other financing and spending decisions such as borrowing from

financing agencies such as SINPF, or commercial banks to improve service delivery including purchase of medical equipment and other minor capital items.

10.10 Insurance administration expenses and choice of provider payment method

Generally, private health insurance administration costs tend to be higher than those of social health insurance systems. While authoritative sources such as OECD's⁶² country-specific data vary depending on organizational set-up, administrative expenses range between 2 to 8 per cent of total health insurance revenue and should ideally not exceed the 5 per cent benchmark. Given the revenue estimates we have provided in earlier parts of this report, the administrative budget should ideally remain within the SBD 160,000 to SBD 400,000 bracket.

The marginal cost of collecting health insurance revenue in addition to retirement savings is almost zero as the administrative set up for payroll deductions are already in place. The administrative budget is very much determined by the type of provider payment method chosen by the policy makers. If a high-volume transaction-based fee for service method is chosen, the administrative budget will claim more than 5 per cent of total revenue as each itemised bill needs to be checked, and fraud detection measures need to be in place. If service agreements are put in place which places effective caps on service costs or benefit outlays, then administration budget will be much lower.

This can be explained in a simple example. If a fee for service method is chosen for the estimated number of insured persons which is about 100,000 people, on average of 2.2 medical consultations per person per year, insurance administrators would have to process 220,000 claims annually. If drug scripts are considered ranging from none to 3 scripts per consultation, there could be anything from 250,000 to 800,000 drug benefit claims in a year.

If however a service agreement is signed with the doctors or hospitals that employ the doctors on time-allotted basis, then the insurance administration would be processing 58 times 12 invoices per year or just under 700 payments,

assuming all 58 doctors in the country are contracted. In full time equivalent terms, as our previous budgetary estimates have shown, there is a need to contract with 38-40 full time doctors only. On the other hand it is assumed that all doctors currently in the country and if possible additional doctors who would be attracted to the system would eventually have a service agreement with the insurance agency. Even so, the amount of doctor hours to be purchased would be capped, based on an estimate of patient throughput which can be varied from year to year through negotiations.

In our benefit costs (budgetary estimates) in the previous section, we have assumed an annual purchase of 75,000 medical service hours based on 2.2 consultations per person and an average of 21-22 minutes per consultation as a starting point. At SBD 60 per contracted hour, the benefit outlay of the insurance fund is effectively capped.

This arrangement is similar to *capitation based* contracts on which primary care physicians in some countries are paid. However, administration of the capitation payment method also requires information systems, as the insurance agency needs to know how many patients are registered with each doctor in order to calculate individual doctor payments for each month. Using the same budgeted amounts as explained above, the capitation equivalent payments could be calculated as follows:

The annual medical services budget is divided by the number of insured persons and then the monthly equivalent capitation amount per member is obtained. Like the hourly rate that was calculated before, this amount would constitute the basis of negotiations between the insurance agency and the providers.

Table 10.11 Estimates by provider payment method

Capitation Equivalents	
Total Medical Services Budget	4,528,224
Number of members (est)	94,338
Annual capitation amount per member	\$ 48.00
Monthly equivalent	\$ 4.00
Estimated Doctor payments per month	
Doctors with 800 patients	\$ 3,200
Doctors with 1000 patients	\$ 4,000
Doctors with 2500 patients	\$ 10,000
Doctors with 3000 patients	\$ 12,000

⁶² Organization for Economic Cooperation and Development which mainly includes developed countries and a few middle-income developing nations.

Depending on how many patients are registered with a doctor, the insurance company would be paying different amounts to the bank account of each doctor. As can be seen, the administration of capitation based contracts would require more administration time compared to a service agreement with a hospital who would internally roster patient times with each of the clinical specialists. Also, the capitation payment method is only suitable for general practitioners as a patient should have access to any specialist their medical need would require and hence it is not practical to register the patient with one particular specialist. The illustration above is demonstrated to explain policy makers how the different provider payment methods have an impact on administration.

In our opinion, *capped budgeting* is the most cost-effective form of administering benefit outlays. This would incorporate a financial incentive by allowing a higher per hour rate than the current salary equivalent compensation amount. In retrospect SBD 60 per hour with insured patients is much higher than the (SOS3) remuneration scale, and this amount can be negotiated every year as well as the contracted amount of hours based on patient volumes.

10.11 Conclusions and next steps for the implementation of reforms

Implementation of health insurance, reforming health service delivery, commissioning of new health investments, institutional development and strengthening of insurance administration will take time.

As this report has discussed, there are a number of key technical and policy issues which need to be analysed in detail. The international expertise provided by ILO was not sufficient to resolve all these issues and provide a comprehensive detailed solution given the limited amount of time that was available to undertake this review. However, we believe a technical working group or a steering committee would be in a better position to study these issues in more detail and finalise the proposal that could be presented for Cabinet approval.

10.11.1 Roles and responsibilities of the steering committee

The following list does not cover a finite number of activities that should be undertaken but covers the most important aspects of this reform proposal.

1. Evaluate the fiscal impact of social health insurance employer contribution on government's finances.
2. Evaluate the affordability of the proposed health insurance premiums by employers and employees given due consideration to cost of recruitment following the introduction of a medicare levy.
3. Prepare the legislative changes required for SINPF to implement a formal sector social health insurance scheme.
4. Review the status of Solomon Islands Mutual Insurance to see if can be transformed into a specialised para-statal agency, or alternatively a fully SINPF owned subsidiary. This agency would be entrusted with the administrative functions which would be cost effectively delivered rather than through a new government agency.
5. Develop a voluntary health insurance policy product together with SMI and SINPF experts which can be offered to the informal economy, working closely with agricultural and fishing cooperatives to collect premiums.
6. Develop the *right of private practice* guidelines based on the suggestions made in this report, which would disallow private practice for direct fee paying patients while serving at public owned units and would allow such to serve insured persons by the proposed SINPF scheme.
7. Develop payment terms for doctors for *right of private practice* to service formal sector insured persons (SINPF members and dependents).
8. Complete capital investment needs for commissioning of an autonomous clinical centre within or outside Honiara National Referral Hospital campus and evaluate whether SINPF funds can be used to finance infrastructure and equipment.

Chapter 11 Social Security Pensions: Principles

11.1 Introduction

This chapter is provided in the context of the ILO project *Subregional Initiative on Social Security in Pacific Island Countries*. It deals with the main issues which provident fund board members and executives, public servants, other stakeholders and the wider public raise concerning statutory retirement protection systems set up by governments. The chapter is in the form of questions and answers. Recommendations for further reading are provided.

11.2 Why do governments enact legislation about social security retirement benefits?

Another way of asking the question is ‘Should people not be left to look after themselves and their dependants after they retire’? Much attention is paid to the form, qualification conditions and administration of retirement benefits, but the basic question, why or whether governments should be involved, is now only raised by those who favour a diminished size and role of the state or who embrace an anti-statist ideology. It is useful to recall why governments enact legislation pertaining to retirement benefits.

Germany established **social security pensions** (or **public pensions**) at the end of the 19th century in response to the social conditions which had resulted from the industrial revolution.

Reasons for government action include:

- The current consumption needs of workers in wage and salaried employment often leave them with little or no funds to save for their retirement.
- Even if they have funds which they could save, workers are often myopic. They fail to set aside funds for their retirement or underestimate the amount which they should set aside. A scheme with tax-favoured worker and employer contributions can generate the funds necessary for a retirement protection scheme.
- In societies which have heretofore supported older persons through strong extended family and clan links, these links are

weakening as a result of industrialization, urbanization and ageing of populations.

- Mandatory retirement provisions protect members of society from having to support others who have been improvident.
- Governments seek to meet the needs of society, and they no doubt bear in mind the increasing numbers of retired persons whom they wish to be satisfied voters.
- A public pension system based on **risk pooling** (sometimes referred to as a **social contract** between generations or **solidarity**) can be designed to provide for redistribution, for example within a generation, from high to low income earners or from healthy persons to those who become disabled.
- If the state is responsible for paying civil servants’ pensions, a public scheme covering all persons in wage and salaried employment in the public and private sectors can relieve the state budget from (some of) the cost of non-contributory civil servants’ pensions.

It is generally accepted that governments have an implicit – and sometimes explicit in the constitution – obligation to organize systems of social protection for the persons for whom they are responsible, and to ensure that the schemes are properly governed. At the same time, participants in the schemes – workers and employers – have an obligation to abide by the conditions of the social security scheme. If any of these conditions is unfulfilled, the social security scheme will fail.

11.3 How has public retirement protection evolved?

The years of recovery and economic growth and the independence of former colonies following World War II were a time of development and expansion of social protection. The landmark ILO Social Security (Minimum Standards) Convention 1952 (No. 102) provided a framework and guidelines for national social security schemes. This convention became the basis for ILO advice to policymakers and the establishment of social security schemes in developing countries.

In many former British possessions, a form of **defined contribution** scheme, a **provident fund**, was set up around the times they became independent. Often the principal objective was to create domestic capital and it was thought that a lump sum at retirement was appropriate given national social circumstances. Outside of the South Pacific most national provident funds have been converted into social insurance pension schemes (sometimes with a small retirement lump sum as well), for example, in the English-speaking Caribbean, Ghana, India, Nigeria and Tanzania. The Singapore Central Provident Fund has introduced compulsory annuities.

In the 1970s, in the industrialized countries economic conditions (e.g. the ‘oil shocks’) led to a period of diminished growth and consequent consolidation of the gains in social protection which had been made in the previous 25 years. It became clear that lower rates of economic growth would not permit unlimited expansion of social protection – the schemes had to take into account not only social security needs, but greater attention had to be paid to the national economies in which they operated. In Chile, the failure of multiple social security schemes led to the introduction in 1981 of a new system of providing pensions which has had an impact on public pension schemes elsewhere in the following decades.

After 1990 the transition countries which had followed the Soviet system of state budget financed social security had to reform their social security protection schemes. In 1994, a World Bank publication⁶³ promoted the adoption of public pension systems based on the Chilean model. Elsewhere, financial and demographic realities – which have often been breathlessly and irresponsibly asserted in the media – have led countries to re-examine their public pension schemes to assess whether they are meeting their objectives and whether they are financially sustainable. Are schemes meeting the needs of workers in the face of current and likely future labour market conditions – part-time, casual, teleworking and clandestine employment, homework, increasing female participation in the labour market?

11.4 Who is covered by public pensions? Why has coverage not expanded?

The contributory retirement benefit schemes which were set up in developing countries in the 1950s and 1960s were founded on the basis of the development models which were in vogue at that time. It was assumed that as wage and salaried and self-employment expanded, the social security schemes which had been established for these workers would gradually expand to cover most workers, just as had happened (or was happening) in the industrialized countries. For a number of reasons (e.g. national macro-economic mismanagement, high rates of population growth, the effects of structural adjustment measures) in developing countries the expected expansion of formal employment beyond civil servants and workers in still nascent private sectors has not occurred. Instead, national social security schemes providing retirement protection typically cover around 20 percent of workers. The vast majority of workers in self-employment, in subsistence agriculture and in the informal economy remain uncovered.

In recent years, attention has focused on how to provide retirement protection to uncovered workers. Clearly, except perhaps for smallholders who sell produce to a central marketing agency, a contributory social insurance scheme is not generally applicable. To meet this need, the ILO and the World Bank both advocate social pensions.

11.5 Why should the main retirement benefit be a pension?

In other words, ‘What is wrong with lump-sum benefits’? While evidence is largely anecdotal, it is widely agreed that lump sum payments at retirement are rapidly dissipated due to immediate consumption by the recipient and his or her family, extended family and clan. There may also be traditional and religious obligations which the recipient uses the lump sum to fulfil. There is little evidence that recipients of lump sums (who were in wage and salaried employment before retiring) have been able to use them to set up successful small businesses.

Lump sums provide very limited retirement protection, and whatever protection they might provide is further reduced if members can

⁶³ Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth, World Bank, 1994, Oxford University Press.

withdraw part of their lump sums before retirement, for example by taking non-repayable loans or advances or pledging their provident fund balances as security for loans. While the reasons for these withdrawals may be justifiable – housing, redundancy, education, marriage – allowing these payments (or potential payments in the case of pledges) means that the provident fund becomes a **compulsory savings scheme** from which members may draw under certain circumstances, not a retirement benefits scheme.

In a provident fund, each member bears the investment risk, the risk that the fund's investments will produce inadequate returns and his/her savings will lose their real value. The **objective of a retirement benefit** is to produce a continuing, regular, dependable income throughout a person's retirement years and after his/her death provides protection to the immediate survivors. Only a pension which is inflation adjusted can achieve this protection.

This does not mean that a lump sum should not be paid at retirement. Indeed, some of the obligations of retiring persons may require a lump sum, and in any event it would be difficult to change entirely from a lump sum payment to a pension scheme. But, the principal benefit should be a pension. Whether and what amount of lump sum can be provided depends on the total contribution rate.

11.6 Does converting provident fund balances into annuities provide adequate retirement pensions?

Recognition that lump sums provide inadequate protection has led some provident funds to let members voluntarily opt for an annuity, i.e. payment of the lump sum in the form of pension for the life of the retiring person or the joint lives of the retiring person and his/her spouse.⁶⁴ While this is a positive step, conversion of provident fund balances into annuities fails to provide adequate pensions for the following reasons:

- Provident fund balances generally produce inadequate annuities, especially when

members have made withdrawals from their accounts before retirement;

- Annuities lose their real value when they are not adjusted to take into account increases in the cost of living;
- Members cannot estimate the amount of the annuities they will receive in advance;
- Provident funds generally have low retirement ages which result in small annuities.

In any event, voluntary social security arrangements are notoriously unsuccessful.⁶⁵

11.7 What is adjustment (indexation) of pensions? Why is it necessary?

Inflation erodes the purchasing power of pensions which are not adjusted to take inflation into account. For example, if the annual inflation rate is 3 per cent, an annuity of \$1000 is worth only \$863 after 5 years, \$744 after 10 years, \$63 after 15 years and \$554 after 20 years. Hence, a person who used \$1000 to buy a basket of goods and services at retirement would be able to buy barely half of the same basket 20 years later. If the annual inflation rate were 5 per cent, after 20 years the basket would have been reduced to almost one-third the size it was at the time of retirement.

Pensioners can be protected against this loss in the purchasing power of their pensions by adjusting pensions to take inflation into account. In the preceding example, the pension would be increased annually from \$1000 to reach \$1159 after 5 years, \$1344 after 10 years, \$1558 after 15 years and \$1806 after 20 years. In this way the standard of living of a pensioner is protected since the pensioner can always buy the same basket of goods and services. Some schemes also let pensioners participate in workers' productivity gains by adjusting pensions according to the rate of wage increase rather than the rate of consumer price inflation.

11.8 What retirement protection is possible for workers without regular incomes?

Traditional social security schemes are contributory – workers and employers both contribute to them. Workers without regular

⁶⁴ Pensions and annuities both refer to periodic payments and are often used interchangeably. Annuities generally refer to periodic payments which are purchased with a lump sum. Periodic payments from a social insurance scheme are called pensions and normally are payable for the life of the pensioner.

⁶⁵ Even with favourable annuity rates, according to the Fiji National Provident Fund Annual Report for 2003, the annuity take-up of retiring members was only 37%.

incomes include workers in the informal economy⁶⁶ and in self-employment and subsistence agriculture. These workers have no employers, and their capacity to contribute (voluntarily or otherwise) as self-employed persons is very limited. Inviting self-employed persons to voluntarily join a contributory scheme generally does not attract many of them.

In recent years, attention has focused on how to provide social security protection to these uncovered workers. Clearly, a contributory social insurance scheme is not generally practical. To meet this need, the ILO and the World Bank both advocate **social pensions** (also referred to as **universal pensions**, or **citizens pensions** when they cover citizens only).⁶⁷

Social pensions do not aim at replacing workers' regular incomes – the persons they are designed to protect do not have regular incomes. Rather, they seek to alleviate or prevent poverty by providing a fixed periodic payment related to the national level of subsistence. Typically, they are paid to all residents (or citizens) over a relatively high age. They are financed from general taxation, and generally cost from one to two per cent of GDP. Means-testing would appear to reduce the cost of social pensions, but this requires an extensive assessment system and creates the potential for abuse and corruption. Social pensions paid to persons who do not need them can be 'clawed back' through the income tax system.

Social pensions can be administered by the institution which operates the contributory social security scheme, or by another branch of government which has the infrastructure required to make the monthly payments. In the South Pacific region, Kiribati and Samoa have social pensions. Elsewhere, they are found in Brazil, Botswana, Namibia and South Africa.

Social pensions can obviously be abused for political purposes – promising higher pensions or a lower pension age. A statutory mechanism to control potential abuse should be set up, for example, a requirement that the legislature

receive an actuarial study of the budgetary implications of any proposed change before the change is enacted. To help avoid politically motivated increases in social pensions, automatic adjustments to take into account inflation could be applied.

11.9 What retirement protection is possible for wage and salaried workers?

Retirement protection of workers in wage and salaried employment seeks to replace a portion of their incomes at the time of their retirement and to smooth workers' consumption over their working and retirement lives. From the ILO Social Security (Minimum Standards) Convention No. 102, for an average wage earner with a spouse of pensionable age, the minimum income replacement pension after a full working career (30 years) is 40 per cent of the worker's earnings at retirement. Pensions are also payable to workers who become disabled and to the survivors of workers or pensioners who die. To finance their retirement pensions, workers give up some of their income while they are working in order to receive regular incomes after they retire.

This sort of retirement protection is provided through a public social insurance pension scheme. This is a defined benefit scheme where the pension is defined by a formula. For example, the retirement pension formula could be 1.5 per cent of a worker's pensionable earnings times the number of years the worker has participated in the scheme. After 30 years of contributions, this formula would produce a replacement rate of 45 per cent of the worker's pensionable earnings. In practice, more complicated formulas are usually applied. The formula should relate the pension directly to contributions made by a worker and be designed to avoid abuse. For example, when the retirement pension is calculated according to a formula which applies a worker's earnings near retirement to the period during which the worker contributed to the scheme, there is a potential moral hazard since workers can seek to manipulate the timing of their contributions and the pensionable earnings used to calculate their pensions in order to reduce their contributions and inflate their pensions.⁶⁸

⁶⁶ The broadest definition for the informal economy includes those workers who do not receive regular income and have no contractual or enforceable employer/employee relationships. This usually includes self-employed, casual and unpaid workers in family businesses and those not registered or subject to labour laws.

⁶⁷ *Age and security* published by HelpAge International has an excellent explanation of social pensions.

⁶⁸ In the mid-1990s an innovative approach to defining and financing public pension schemes, **notional defined contribution** (NDC) accounts, was developed. During the accumulation period a NDC scheme operates like a provident fund except that the notional accounts are not credited with annual interest, but are re-valued annually in accordance with

In a defined benefit scheme workers can know in advance the proportion of their pre-retirement earnings that will be replaced by a pension, and the pension can be adjusted to reflect increases in the cost of living after retirement. The scheme can permit **redistribution** both within and between generations, for example by providing a minimum pension subject to strict qualifying conditions.

In the past, public social insurance pensions were often designed to provide the only retirement protection, and replacement rates were sometimes 70 per cent or more after a full working career. The current approach is to build retirement protection from a number of components (called pillars or tiers) where a modest public social insurance pension, is Pillar 1. For example,⁶⁹

- Pillar 0* Social pension payable to all citizens or residents (financed by the state budget).
- Pillar 1* Public social insurance pension (financed by workers' and employers' contributions).
- Pillar 2* Occupational or personal pension plans.
- Pillar 4* Personal savings.

What are the risks of a public social insurance pension scheme? If the scheme is too generous, it can become unsustainable. There is also the political risk that the government will alter the benefit formula (although governments do this at their peril). Unlike a provident fund, the investment risk is borne by the defined benefit scheme (and ultimately the government as guarantor of the scheme).

If a provident fund is converted to a pension scheme, members' service and contributions under the provident fund must be taken into account.

an index (e.g. the rate of increase in wages or in GDP). When a benefit is payable, the notional balance of an individual's NDC accumulation is converted into periodic pension payments. Contributions are used to pay current pensions on a pay-as-you-go basis; hence members' accounts are 'empty', and their accumulations are 'notional'. Members cannot know the amount of pension they will receive in advance. The NDC system is applied in Sweden, Italy, Poland and Latvia.

⁶⁹ These pillars are based on a World Bank definition.

11.10 What is an appropriate retirement age?

Clearly, the **normal retirement age** or **pensionable age**, the earliest age when members who fulfil other qualifying conditions (e.g. years of service) can begin receiving full retirement pensions has an important effect on the cost of a social insurance pension scheme.

In a social insurance pension scheme, retirement means ceasing gainful economic activity. It does not include quitting one job and taking up another. If a pensioner continues working, his/her pension may be reduced to take into account the pensioner's earned income. Members sometimes have the option to retire before the normal retirement age (usually up to five years earlier) and receive reduced pensions, or they can defer their retirement until after the normal retirement age and receive increased pensions.

Normal retirement age in Pacific Island national provident funds is 50 (Kiribati, Solomon Islands) or 55 (Fiji, Samoa, Vanuatu). From the point of view of a provident fund's finances, the age when a member can receive his/her provident fund balance is immaterial. The fund simply pays the individual member's own balance and there are no financial implications for the fund or other members of the fund.

This is not the case in a social insurance pension scheme where members' contributions are pooled and payments are made to a retiring member for the rest of his/her life and to his/her survivors. A low retirement age means that the scheme would be too expensive – the contribution rate would be too high and/or the public pension scheme could not be sustained. As a rough guide, a pension payable from age 55 costs 15 to 20 per cent more than the same pension payable from age 60, and if the pension is payable from age 65, it costs 20 to 25 per cent less.

Table 11.1 shows the **life expectancy** at birth and at age 60 for persons in Pacific Island countries. Life expectancies for selected industrialized countries are included for comparison. Life expectancy at a specific age is the average number of additional years males and females at that age could expect to live if current mortality levels observed for ages above that age were to continue for the rest of their lives. For example, in Fiji a newborn is currently expected to live to age 69.8 and a person aged 60 to age 76.3.

In setting the retirement age for a social insurance pension scheme, it is the life expectancy at higher ages which is important. In OECD countries the most common normal retirement age is 65, and in developing countries it is 60. In many countries the ratio of average working years to average retirement years is approximately two to one. For example, in Table 11.1, in South Pacific Island countries the projected 2025/30 life expectancy at age 60 is around 20 years. The average working years would then be ages 20 to 59 and the average retirement years ages 60 to 79. An appropriate retirement age for a social insurance pension scheme would be age 60, and the current retirement age should be gradually raised to age 60.

Retirement age must also be set to avoid persons retiring when their skills are still needed. A low retirement age is often perceived as a partial solution to youth unemployment – retiring persons are replaced by unemployed youths – but evidence that this happens in practice is lacking. From *World Population Ageing 1950-2050*, in 2000-2005 the under age 15 population in most Pacific Island countries is around 40 percent of the total population (33 percent in Fiji). By 2045-50 this youth population is projected to decrease to 20-25 percent of the population (18 percent in Fiji). Under this scenario, the problem of unemployment will gradually diminish, and then the issue is apt to be maintaining a work force which can produce output for the entire population.

Table 11.1 South Pacific Island cCountries – life expectancy at birth and age 60

Country	Age	1950/55	2000/05	2025/30	2045/50
Fiji	0	52.5	69.8	74.7	77.8
	60	-	16.3	19.0	21.0
PNG	0	34.7	57.7	67.9	73.2
	60	-	13.7	16.6	18.7
Samoa	0	46.0	70.0	75.5	78.0
	60	-	17.5	20.1	21.4
Solomon Is.	0	45.4	69.2	75.2	78.3
	60	-	16.1	19.2	21.4
Vanuatu	0	42.0	68.8 ²	74.2	76.5
	60	-	16.8	19.2	20.5
Micronesia ³	0	52.0	73.1	77.4	79.5
	60	-	18.6	21.0	22.4
USA	0	68.9	77.5	81.1	82.6
	60	-	21.8	24.0	25.1
UK	0	69.2	78.2	81.4	83.0
	60	-	21.5	23.8	25.0
Australia	0	69.6	79.2	81.4	83.0
	60	-	22.6	24.0	25.1
Japan	0	63.9	81.5	85.6	88.0
	60	-	24.4	27.6	29.5

Source: *World Population Ageing 1950-2050*, Population Division, United Nations Department of Economic and Social Affairs (ST/ESA/Ser.A/207), New York.

² From table 2.1 of the *Demographic Analysis Report* of the 1999 Census of Vanuatu, joint (male and female) life expectancy at birth is 67.3. For urban areas, it is 71.9.

³ Including Kiribati, Guam, Nauru and successor states to the Trust Territory of the Pacific Islands.

11.11 What is the effect of population ageing?

Population ageing – the process whereby older persons become a larger proportion of the total population – is the result of two decreases, first in fertility rates and then in mortality rates. The decrease in fertility rates means that on average fewer children are born per woman over her reproductive lifetime. The drop in mortality rates results in increases in life expectancy (see Table 11.1). Population ageing has profound national social, economic and political implications.

The demographic effect of population ageing can be illustrated by the **support ratio** – the potential number of persons aged 15 to 59 per person aged 60 and over. Table 11.2 illustrates support ratios in Pacific Island countries from 1950 to 2050. Support ratios before 2000 are subject to data

deficiencies. Those for 2025 and 2050 are based on population projections. Support ratios for selected industrialized countries are included for comparison.

Table 11.2 South Pacific Island countries – support ratios

(potential number of persons aged 15 to 59 per person aged 60 or older)

Country	1950	1975	2000	2025	2050
Fiji	10.8	12.4	10.7	4.9	2.5
PNG	9.1	14.2	13.6	9.3	5.3
Samoa	12.3	16.1	7.6 ¹	9.1	4.3
Solomon Is.	16.9	9.6	12.1	10.3	6.1
Vanuatu	11.5	11.4	10.6 ²	8.0	4.6
Micronesia ³	19.3	13.8	8.0	5.5	4.2
USA	4.8	4.1	3.9	2.3	2.0
UK	4.0	2.9	2.9	1.9	1.5
Australia	4.9	4.7	3.9	2.3	1.9
Japan	7.4	5.5	2.7	1.5	1.1

Source: Based on *World Population Ageing 1950-2050*, Population Division, United Nations Department of Economic and Social Affairs (ST/ESA/Ser.A/207), New York.

¹ The year 2000 support ratio for Samoa is affected by substantial out-migration.

² From table 2.1 of the *Demographic Analysis Report* of the 1999 Census of Vanuatu, the support ratio is 10.3.

³ Including Kiribati, Guam, Nauru and successor states to the Trust Territory of the Pacific Islands.

Taking Fiji for example, in 2000 there are 10.7 potential workers to support each person aged 60 or more. In 2000 it is projected there will be only 4.9 potential workers per aged person and in 2050 there will be 2.5. The support ratio decreases by about one-half between 2000 and 2025 and by one-half again in the next 25 years.

In Pacific Island and most developing countries, the pace of the reduction in the support ratios is rapid, much more rapid than it has been in the industrialized countries. Hence, developing countries have much less time to adjust to the ageing of their populations. Decreasing support ratios place a greater burden on the working population. In countries such as those in the South Pacific with strong family, kin and community social **support systems**, these systems will be put under rapidly increasing strain as the support ratios decrease. Social pensions payable to all and social insurance pensions payable to retired

formal sector workers can mitigate this strain, and thereby help to maintain communal support systems.

11.12 How are social insurance pension schemes financed?

The financial system of a social security pension scheme refers to the manner whereby funds are made available to pay benefits. Funding refers to creating a reserve fund, which generates investment income that along with contributions is used to pay future pensions. A defined contribution scheme (e.g. a provident fund) is fully funded – the total of individuals' accumulations is (or should be) equal to the reserve fund. At the opposite extreme is the pay-as-you-go financial system, where no reserve funds are set aside and current benefits are paid from current contributions.

In the industrialized countries, mature public social insurance pension schemes are often financed on the pay-as-you-go system and there are low or no reserves. In new social insurance pension schemes in developing countries, where for many years there will be relatively few pensioners compared to contributors, contribution rates are set to create reserves under a partially funded financial system.⁷⁰ This is necessary in a new scheme because for many years the total annual pension payments will increase since:

- the number of pensioners will increase as new retirees qualify for pensions;
- increasing longevity means that pensions will be paid for longer periods;
- the average amount of new pensions will increase:
 - since new retirees will have more years of service.
 - since new retirees' pensionable earnings will increase along with increases in their earnings;
- pensioners will receive cost of living increases in their pensions.

Under a partially funded financial system, the contribution rate to pay pensions and produce the desired level of reserves is set for an extended period (e.g. 20 years). The contribution rate must be increased in the future depending on the actual experience of the scheme.

⁷⁰ The public systems in Canada, Japan and the USA are partially funded.

Contributions to social insurance pension schemes are pooled. There are no individual accounts or balances attributable to each member. Rather, each member has an account which records his/her accrued rights to a pension. Consequently, there are no personal accounts from which members can borrow. Any loans by the scheme to members must be repaid and be on a commercial basis.

Provident fund members are used to having their personal individual accounts, and are apt to resist pooling their contributions to provide pensions under a social insurance pension scheme. Even if the average period of payment of a pension after age 60 is now over 15 years (see Table 11.1), they are concerned that they might die early and not receive all their contributions back in pension payments. A pension scheme can be designed to guarantee that the payments to a pensioner and his/her survivors will be equal to at least the total amount of his/her contributions to the scheme.

11.13 Is a financial system based on full funding better than a partially funded system?

No matter how they are financed, all pensions are transfers of resources from active workers to inactive retired persons at the time the pensions are paid. Amounts paid in pensions, which pensioners then convert into goods and services that they consume, are equal to consumption (and investment) which workers forego. The goods and services which workers and pensioners share must be produced by workers at the time pensions are paid. Under the pay-as-you-go system the transfer is direct through contributions (or taxes) paid by workers. Under the funded system, pensioners liquidate assets which they have accumulated by selling their assets to workers. In both cases, and in the case of partially funded schemes, workers' disposable income is reduced by the amount of resources transferred to retired persons.⁷¹

As the demographic burden increases (i.e. support ratios decrease) workers must support increasing numbers of pensioners. In a pay-as-you-go financed scheme it is uncertain whether the declining relative proportions of active workers have the capacity to pay the pensions of increasing numbers of pensioners. But funding a

pension scheme does not reduce this burden, since it is uncertain whether there will be a systemic decline in asset values when pensioners seek to realize their assets by selling them to the same declining relative proportions of active workers.

Support of increasing numbers of retired persons is possible only if output grows – only if economic growth is sufficiently robust to generate the resources to be transferred to retired persons without unduly depriving active workers. The fundamental issue is whether the system of financing pensions causes output to increase. Like provident funds, the reserves of a public pension scheme increase output only if they can be productively invested.

11.14 How do social insurance pension schemes promote national economic development?

One reason – perhaps the principal one – why provident funds were set up was to generate domestic savings for national development. The proposition that a provident fund or (partially) funded pension scheme stimulates economic growth is intuitively persuasive. A funded scheme should increase saving and the increased saving should result in increased investment and thereby increased output. Empirical evidence of the funding/savings link has, however, been inconclusive. The second component of the proposition – increased investment leads to greater economic growth (and not simply inflated asset values) – depends on the availability of efficient and productive investments. This is problematical in countries with underdeveloped national capital markets.

Funded social security schemes may be seen as instruments for developing domestic capital markets. A vibrant capital market requires laws governing the ownership and transfer of property, a reliable banking system, a functioning securities exchange and effective regulation of financial institutions along with the will and capacity to enforce the regulations. While funded social security schemes can help to develop capital markets, the basic financial infrastructure is a prerequisite. Fiscal measures may be a more effective means of developing national capital markets.

The principle objective of a public pension scheme is retirement protection. Other objectives

⁷¹ Owner occupied housing is an exception to the transfer from active workers to pensioners and assets which are sold abroad do not involve a transfer of domestic resources.

are subsidiary. National economic growth is necessary to sustain the scheme, and the scheme must be financed and operated in order to promote economic growth.

11.15 What governance is appropriate for a social insurance pension scheme?

A sound governance structure is essential if any social security scheme is to meet its objectives. Sound governance means that persons involved in the governance and operations of a social security pension scheme recognize their responsibilities and exercise them with integrity, and that they are made responsible and culpable for their actions (or inactions). They must bear in mind the long-term perspective of pension schemes which extends for generations.

The *first level of governance* is the political body which enacts the scheme. The legislation should be of an enabling nature so that the normal operations of the scheme can be conducted without interference. For example, if a scheme must seek legislation to implement an increase in pensions to take into account inflation, it may well decide to forego the increase since the ensuing debate would result in a review of the entire scheme. A public social security scheme should report annually to the legislature on its operations, and at specific intervals (e.g. every five-years) the legislature may schedule a thorough review of the scheme.

The *second level of governance* is the board of directors of the social security scheme. The responsibilities of this governing body should be consistent with the overriding objective of the social security scheme which is to pay the promised benefits. The board must strive to maintain the financial sustainability of the social security scheme by monitoring and managing the risks associated with the scheme, including in particular the demographic, financial and broader economic risks. As in a provident fund, internal and external auditing of the accounts of the scheme is necessary. Periodic (three or five yearly) actuarial valuations of a public pension scheme should be undertaken to assess whether, under the financial system adopted, the contribution rate and expected investment income are sufficient to finance future benefits and sustain the scheme.

Despite tripartite representation (with worker, employer and government representatives) on the

governing bodies of most social security schemes (as set out in ILO Convention 102), boards' governance has often been inadequate. Governing bodies are becoming more representative with the appointment of other elements of civil society (e.g. pensioners), and on some boards members with specific expertise are appointed. Board members must act as trustees/custodians of members' contributions to the scheme. They have a fiduciary responsibility and should be held legally culpable for actions they take which are not in the best interest of the members of the social security scheme for which they are responsible.

Everywhere, boards of social security institutions are asserting their independence, especially their independence from interference or influence by government or politicians. This does not mean that the board acts without reference to the framework established by the legislation or the policies of the government. Nor does it preclude appropriate consultations with parliamentary and government officials or other government agencies. Governments are the ultimate guarantors of social security schemes, and governments have a legitimate interest and responsibility for the schemes.

While governments appoint board members, they should not be able to remove a board member on a whim or if the member's position on an issue is contrary to the wishes of the government. The relationship between social security institutions and governments should be more like the relationship between central banks and governments.

The *third level of governance* involves the management and administration of the scheme. Clearly, managerial and technical competence is critical, and these attributes must be properly rewarded in order to attract and retain high calibre staff. It is the scheme's managers and technicians who provide advice to the board and ensure that clients of the scheme are properly served.

Sound governance of a social security scheme leads to improved client service, increased transparency, informed debate, performance standards and improved compliance. It creates public confidence in the scheme. Members appreciate that the scheme's principal objective is to provide them with social protection, and that it

is seeking to achieve this objective in an open manner.

11.16 How can social security funds be productively invested?

A sound governance structure is a prerequisite for the effective investment of provident fund or public pension scheme funds. The International Social Security Association has developed *Guidelines for the Investment of Social Security Funds* which deal with setting investment objectives and the organization of the investment process (see <http://www.issa.int/pdf/GA2004/2guidelines.pdf>).

The board of the social security scheme should appoint an **investment committee** responsible for developing an investment policy and investment strategy, recommending the policy and strategy to the board, overseeing implementation and evaluating effectiveness. Like the board, the investment committee should be independent from political influence or interference. Since a provident fund or a partially funded pension scheme is often the most important financial institution in a country, appropriate consultations must be held with government officials and agencies, notably the Ministry of Finance and central bank. But this does not mean that government should be able to direct or dictate the scheme's investments, interfere in the scheme's operations or (in the worst case) plunder the scheme's assets. While the views of national financial authorities are a legitimate consideration in setting the investment policy and strategy, they should not be involved in implementation of the strategy.

There are two **primary objectives** for the investment of social security funds:

- **security** – the investments should assist the social security scheme to meet its commitments in a cost-effective way;
- **profitability** – the investments should achieve maximum returns subject to acceptable risk.

A subsidiary objective, **social and economic utility**, may also be taken into account. Investments with social and economic utility can include, for example, some private sector initiatives and state enterprises; low-cost housing; health, transportation and communications infrastructure; old-age facilities; tourism; and projects such as student loans which develop

human resources. These investments can make substantial contributions to economic growth, however their economic rates of return may not be reflected in short-term financial rates of return. By contributing to national economic growth, these investments can improve the long-term financial status of a social security scheme by ultimately increasing the number of members and their earnings and the rate of return on investments.

There should be well-defined criteria for determining the circumstances and extent the social and economic utility of an investment will be taken into account. Where investment in a particular venture is considered desirable by the government and/or the board of the social security scheme but the returns are likely to be below market rates, the investment should be structured so that a subsidy is provided to the scheme from other government resources in order to avoid compromising the fiduciary responsibilities of the social security scheme to its members. If an investment is insufficiently secure for the investment of social security funds, a government guarantee should be sought.

The *Investment Guidelines* provide that 'No minimum level of investment should be prescribed for any given category of investment'. This applies in particular to **government securities**. Some governments have simply absorbed the investments of social security schemes, sometimes at below market rates, and used the funds to cover deficits. The availability of social security funds can also encourage governments to be profligate. On the other hand, governments have legitimate borrowing needs. If they cannot borrow social security funds, they will have to borrow elsewhere, perhaps at higher interest rates. The service of this debt will be the responsibility of taxpayers, the same persons who are contributors to the social security scheme. In developing countries, limitations of domestic capital markets generally result in significant investments in government securities. Governments should borrow social security funds, just as they borrow from other lenders, and the loans should be at market rates of interest.

Abuses by governments of funds they have borrowed from captive social security institutions have inspired calls to privatize social security in the expectation that private managers would be less susceptible to specific investment (and other) directions from the government and that they

would invest more aggressively. It is not clear that privatization insulates social security schemes from political interference.⁷² Nor, since private managers would be investing in the same market as the public scheme, is it evident that they will be able to perform better than the public scheme. Multiple private managers would also be more expensive than a single public scheme investor. An alternative is for the public scheme to define the investment policy, strategy and benchmarks, and to allocate funds for investment by competing private investment institutions whose performance is then monitored by the public scheme. In this way, the public scheme would continue to be administered as before and the investment function would be shared. The investment performance of the public scheme could also be compared to the performance of the private investment institutions.

Whether investment leads to greater economic growth (and not simply inflated asset values) depends on the availability of efficient and productive investments. In developing countries provident funds and partially funded social security pension schemes face **liquidity** problems: they have funds to invest, but limited appropriate domestic investment opportunities. The easy solution to this dilemma – countries in this situation should invest abroad – ignores the national development and macroeconomic implications of exporting capital. In this case, the greater security which foreign investment might provide to persons covered by a pension scheme is incompatible with the goal of increasing national output.

While social security institutions prefer to invest ‘in bulk’ – to be ‘wholesalers’ of funds – excess liquidity leads them to undertake **financing of projects**. Project finance requires specialized management expertise which may not be found in social security institutions. Consequently, there can be a significant investment risk, and the effective management of the social security scheme may be put in jeopardy if its senior staff must divert their attention from running the scheme to overseeing projects.

In some countries, provident funds and partially funded social insurance pension schemes have

been made subject to ‘financial services legislation’ and the **prudential supervision** of the body which administers the legislation, often the central bank. This can be a positive measure. It must, however, be recognized that a public social security scheme is very different from a commercial financial institution. A social security scheme has an indefinite time horizon; it is not subject to being ‘wound up’. Pension scheme liabilities are long-term and partially funded social insurance pension schemes (and provident funds) seek to invest for long periods. Consequently, their investment performance should be measured over long periods. They should not be monitored in the same manner as private financial institutions which for competition reasons must seek high short-term returns. Indeed, a short-term investment horizon can be detrimental to both the national interest and to the interests of members of a social security scheme.

11.17 Are public pension schemes gender neutral?

In so far as the pension amount is concerned, males and females are treated identically even though higher female life expectancy means that females will on average receive their pensions for longer periods than males. (At one time it was common to have a female retirement age up to five years lower than the male age, but this provision has largely been eliminated.)

However, pensions received by females are generally lower than male pensions due to females’ absence from the labour force to bear and raise children and the lower wages typically received by females. Since public pension schemes pool contributions, females can be compensated for the time they spend rearing children by crediting them with service for the period when they are not contributing to the pension scheme. (Such a redistributive arrangement is not possible in a provident fund or defined contribution scheme where the benefit depends on each individual’s own contributions.) The lower wages received by females are a result of labour market discrimination which is not susceptible to equitable resolution by a public pension scheme. A minimum pension guarantee can provide a ‘floor of protection’ to both males and females.

In some schemes, a female’s right to a widow’s pension was derived from her husband, and she

⁷² Events in 2001 in Argentina where private fund managers under the mandatory defined contribution system were ordered by the Government to transfer deposits to the state-owned bank cast doubt on the conviction that privatization would liberate pension funds from political risk.

could lose her right in the event of divorce or separation. This discrimination is being replaced by arrangements for splitting acquired benefit rights in the case of divorce or separation. In countries where female labour force participation is substantial, there is a trend to individualizing of benefits whereby a female's right to a benefit is entirely independent of her spouse.

11.18 Is there a 'crisis' in public pension schemes in industrialized countries?

The issue is ageing of national populations and 'over-promised' pensions. Declining support ratios and high replacement rates – 70 per cent and above, much higher than a modest replacement rate – in some maturing pay-as-you-go financed public pension schemes in industrialized countries threaten the future sustainability of the schemes. The identification of population ageing as an impending public pensions crisis which requires immediate action spawned articles in the popular press which exploited the alleged crisis and created uncertainty and doubt about their pensions among members of the public schemes. It was frequently claimed that the social insurance pension model was flawed and should be replaced by a defined contribution system. A radical structural reform was often advocated, sometimes with the support of private sector bodies which saw a potential commercial opportunity.

Certainly, the schemes in question must be reformed, but there is time to take a measured approach to reform. Reforms to social insurance schemes typically involve raising the contribution rate, increasing the number of active contributors relative to pensioners (e.g. by raising the retirement age), and/or decreasing the living standard of current and future pensioners (e.g. by lowering replacement rates or by lowering cost of living adjustments). Reforms are politically difficult, and in order to avoid a 'reform deadlock' and be accepted they must be based on a broad national consensus. Reforms of their defined benefit schemes have been adopted in Canada, Germany and Japan, and are under discussion elsewhere.

11.19 What is the Chilean reform model?

The reform of the public pension system in Chile has received much attention. In Chile, by the end of the 1970s political manoeuvring, unrealistic and inequitable pension promises,

mismanagement, inflation and currency devaluation had brought the public pension schemes (there were several defined benefit schemes covering different sectors) into disrepute. The schemes were discredited, their partial funding financing had effectively become pay-as-you-go and they had become unsustainable. In 1981 Chile enacted a structural (paradigm) reform which replaced the defined benefit schemes with a defined contribution scheme based on privately managed individual accounts.

During the accumulation period the individual accounts are credited with investment income annually just like members' accounts in provident funds. The difference is that in Chile the individual accounts are managed by private managers, not by a public institution. At retirement, members convert the balances in their accounts into pensions by buying annuities from private annuity providers or opt for 'programmed withdrawals' over a period. The latter provision gives individuals a choice which can result in their outliving the periodic payments and perhaps resorting to the guaranteed minimum pension paid by the state. The government set up a sophisticated supervisory authority to ensure that the private managers operate in the best interest of the account holders and annuitants.

Advocates of a Chilean style reform expected privatization to avoid the risk of political interference, and competition among private managers to produce higher investment returns for members and thereby higher pensions. In addition, national savings rates were expected to rise, capital to be more efficiently allocated, labour markets to become more efficient and national economic growth to increase. The Chilean reform focuses more on macroeconomic than on social policy considerations, and tends to be favoured by finance ministries and resisted by labour and social welfare ministries.

As in a provident fund, members in a defined contribution individual accounts scheme bear the investment risk, and the risk that their defined contribution individual account balances at retirement will be insufficient to provide them and their dependants with adequate retirement incomes. They have been empowered to make their own choices (e.g. to select and change private fund managers), but generally they do not have either the information or the knowledge to take informed decisions. In their dilemma, there

is no shortage of professional advisers and salespersons to assist them. The resulting switching of fund managers complicates the administration, increases administration expenses and can abet evasion of contributions. While investment managers are free from direct government interference and demands to which funded publicly managed schemes can be subject, generally the composition of the investment portfolios of different managers is remarkably similar. This may be attributable to regulations constraining investments, or simply due to the depth of the domestic capital market which offers few investments suitable for social security funds. Consequently, managers' rates of return are not significantly different.

Annuitization at retirement has proved to be problematical. All private annuity providers face the same investment and future reinvestment constraints and uncertain future annuitant mortality, as well as marketing and administration expenses. Since potential annuitants can opt for programmed withdrawals, the providers face adverse selection as persons who perceive themselves to be unhealthy will not opt for annuities. In order to index annuity payments so they keep up with inflation, private annuity underwriters must invest in indexed securities which largely restrict them to inflation indexed bonds issued by the government.

The close link between contributions and benefits in the individual account schemes has not created the expected incentive for participants to comply with the statutory contribution conditions. Myopic behaviour and current consumption needs have predominated over prudent saving for retirement and levels of compliance are low. In privately managed individual account schemes, administration expenses (including the high cost of advertising and salespersons' commissions) reduce the funds members accumulate to buy their pensions. This alone is a compelling reason for public pension schemes to be administered as natural monopolies by government departments or statutory bodies.

Adaptations of the Chilean model have been implemented in a number of Latin American countries and some countries in Central and Eastern Europe and the former Soviet Union. Experience with the model has considerably diminished enthusiasm for it. (See *Old Age Income Support in the 21st Century*, World Bank, Washington, 2005.)

11.20 What are the administrative prerequisites for a social insurance pension scheme?

This chapter has focused on retirement protection policy issues. A social insurance pension scheme requires an efficient administration and a 'client service' approach to members, otherwise, no matter how well-designed the scheme is, it will not meet its objectives and it will rapidly be discredited by those whom it is designed to protect.

A provident fund already has a management information system, and the administrative infrastructure and system to collect and record contributions. The contributions system can be adapted to the requirements of a pension scheme. A system to record and make periodic pension payments on time and at remote locations throughout the country must be developed.

The necessary systems can be developed or adapted from existing systems elsewhere. It is important to allocate sufficient time to systems development so the pension scheme can be fully operational from the day it is inaugurated.

11.21 Pensions in Solomon Islands

11.21.1 *Solomon Islands National Provident Fund (SINPF)* (established 1976)

(i) *Coverage:*

Compulsory: public and private sector employees between ages 15 and 55;

Voluntary: self-employed persons under age 35 unless they have previously been members for at least 12 months.

(ii) *Contributions:*

12.5 per cent of gross wages with 7.5 per cent paid by the employer and 5 per cent by the employee.

(iii) *Benefits:*

Amount: employee and employer accumulated contributions with accrued interest. (there is no provision for the payment of all or part of the lump sum as an annuity.) payable in the event of a member:

- Attaining age 50,
- Death,
- Incapacity,
- Migration,
- Redundancy, and
- Reaching age 40 and not in employment (retired).

If the SINPF is unable to pay any amount which it is obliged to under the legislation, the Solomon Islands Government guarantees the shortfall by making a loan to the SINPF.

A Special Death Benefit of SBD 2500 is financed by an annual deduction of SBD 5 from each member's account.

(iv) **Governance:**

A tripartite Board of six persons plus two other persons is appointed by the Minister of Finance and National Planning. The Minister appoints the chairperson. Since August 2002, the Central Bank provides prudential supervision of the SINPF under the provisions of the Financial Institutions Act.

(v) **Loans/Non-refundable advances:**

Since 1982, two-thirds of a member's balance may be used as pledges (security) for loans from financial institutions. A pledge is invoked six months after a member defaults on a loan.

The SINPF makes direct loans at a concessional rate to members for urban housing (1989), rural housing (1992) and furniture (1993).

11.21.2 Observations on the Solomon Islands National Provident Fund

The SINPF is the principal financial institution in the Solomon Islands. It is the main creditor of the central and provincial governments. The ethnic conflict from 1999 to 2003 resulted in a decline in the number of contributors to the SINPF, widespread failure to comply with contribution conditions, an increase in members' withdrawals of their balances from the Fund and impairment of the Fund's investments.

(i) **Objective of the SINPF**

While the legislation (CAP 109) is silent on its objectives, presumably the SINPF was established with the same principal objective as

other statutory provident funds: to provide workers in wage and salaried employment with lump sum benefits when they retire or in case of their prior invalidity and to provide their dependants with lump sums in the case of their death.⁷³

Retired persons need periodic payments (pensions) to protect them throughout their retirement years. Lump sum payments do not provide this protection. In the SINPF the lump sums are greatly reduced by withdrawals which members can make from their accounts before reaching retirement age 50.

Clearly, it would be useful if the Board of the SINPF were to adopt a 'mission statement' setting out the objectives of the Fund.

(ii) **Coverage**

According to the Solomon Islands 1999 Census the total population was 409,042 and 130,267 persons were in the labour force (persons age 14 and above). Of the 57,472 persons in paid employment, 30,666 were in wage employment (including around 11,000 central Government civil servants).

It is reported that following the period of ethnic tension, the number of active members in the SINPF (i.e. those currently contributing) has recovered to the level reached in 1996, around 40,000. This would mean that the SINPF covers around 30 per cent of the labour force in the Solomon Islands.

It is not possible to cover most workers who are in the informal economy and in self-employment and subsistence agriculture in a contributory social security scheme. In due course the Government may be in a position to provide from its budget a monthly social pension payable to all persons over a specified age. The amount would be low and related to subsistence requirements. The SINPF could administer the social pension payments on behalf of the Government.

⁷³ Uncertainty over the objectives and nature of the SINPF is evident in a Supervision Report by the Central Bank: "Despite the use of the words 'social security', the Fund is not a superannuating scheme nor by definition a social security institution. The Fund is simply a saving scheme and its mode of operations is similar to that of a retail bank."

(iii) Compliance

No social security scheme can operate unless there is compliance with the contribution conditions of the scheme. It is up to the central and provincial Governments as employers and statutory bodies to set examples of full compliance. Unless these prime employers fully meet the requirements of the law, private employers cannot be expected to comply with it.

In order to ensure compliance, a social security institution must have access to quick administrative and legal remedies once the institution's efforts to negotiate payment arrangements with a defaulting employer have been unsuccessful. Unless the institution can invoke rapid remedies, its efforts to ensure compliance will be thwarted. Failure to provide the social security institution with all administrative means to control compliance and legal remedies to enforce compliance brings into question the government's commitment to the success of the scheme which it enacted.

(iv) Interest credited to members' accounts

The real rate of return on balances in members' SINPF accounts is illustrated in table S11. The SINPF is obliged by law to credit at least 2.5% interest to members' accounts.

Table 11.3 SINPF rates of return (%)

Year	Credited to members	Inflation rate	Real return to members
1995	8.5	9.6	-1.1
1996	8.5	11.8	-3.3
1997	8.0	8.2	-0.2
1998	7.5	12.3	-4.8
1999	8.0	8.1	-0.1
2000	6.0	7.3	-1.3
2001	2.5	6.8	-4.3
2002	3.0	7.5	-4.5
2003	2.5	12.4	-9.9
2004	2.6	na	-

Source: SINPF data; ILO LABORSTA table 7A (calendar year average rates of inflation)

A negative real return on members' accounts during the accumulation period means that (excluding contributions made during the year) at the end of the year the real value of the account balances is lower than at the beginning of the year, i.e. the balances in the accounts can buy fewer goods and services at the end of the year than they could at the beginning. In a defined contribution (provident fund) scheme, members

bear the risk that the real returns will be negative.⁷⁴

(v) Investments

Since the mid-1990s, uncertainty over whether the central and provincial governments and statutory bodies would be able to service and redeem securities and loans held by the SINPF have led the external auditor's report to the Auditor General and the Auditor General to include qualifications to this effect.

At 30 June 2004, the invested assets of the SINPF included SBD 94.3 in central Government bonds and SBD 100 million in loans of which SBD 43.3 million was to statutory bodies and SBD 14.9 million was to provincial governments. In accordance with the Financial Institutions Act, substantial provision has been made for possible default of these loans and loans to members and staff.

In December 2004, arrangements were concluded with the central Government to amortize SBD 127 million over 7 to 15 years, representing:

- (1) restructured central Government bonds held by the SINPF, and
- (2) contribution arrears of the central Government from 1999 to October 2004.

The interest rate is 2 per cent for the first five years and 2.25 per cent thereafter (despite the legal requirement that the SINPF credit at least 2.5 per cent annual interest to members' accounts). Loans by the SINPF to quasi-government bodies and provincial governments which are in arrears (and which are generally guaranteed by the central Government) have not yet been restructured.

Unlike a social insurance pension scheme, in a defined contribution (provident fund) scheme it is the members – not the administration or the government – who bear the investment risk. The members, personally and individually, bear the loss resulting from settling and ultimately discharging the Government debt. SINPF members are thus bearing their share of the pain associated with national economic recovery.

⁷⁴ Members who make withdrawals from their accounts for current consumption may in fact be acting in their own best interest if real returns on their accounts are negative.

The SINPF is not allowed to make foreign investments. Capital invested abroad may provide good returns to provident fund members, but unless it is balanced by inward foreign direct investment, it does little to develop the national economy (e.g. through infrastructure investments in telecommunications, transportation, medical facilities or education). It is these infrastructure investments which will generate employment, increase national output and raise the national standard of living in the future.

As is the case in most developing countries, the SINPF finds it difficult to locate domestic investment opportunities which are suitable for social security funds.⁷⁵ The capital market in the Solomon Islands is very limited, and interest on term deposits has fallen to negligible levels. Under these circumstances, it is desirable that the SINPF be allowed to make some foreign investments (for example up to a limit of 10% of its invested assets). This would permit the scheme to credit higher interest to members' accounts and help to re-establish the credibility of the SINPF after the experience members have had with SINPF investments in Solomon Islands Government bonds and loans to provincial governments and statutory bodies.

(vi) *Withdrawals*

Initially, the SINPF legislation provided for the payment of the lump sum in a member's account in the event of the member's (1) attaining age 50, (2) death, (3) incapacity, (4) attaining age 40 and not in employment, (5) migration and (6) redundancy and (7) migration.

Since 1982 SINPF members have been allowed to pledge part of their balances as security for loans. Since a pledge is honoured after six months default on loan payments, pledges create a system whereby members can contrive to withdraw funds from their accounts. The SINPF began direct loans to members for urban housing (1989), rural housing (1992) and furniture (1993), and encouraged members to take loans by charging a concessional rate of interest.

Table 11.4 Number and amount of withdrawals at age 55 or higher

Reason for withdrawal	1994/95 to 1996/97	1999/2000 to 2001/02
Retirement at age 50+ or Death or Incapacity	24%	28%
Retirement at age 40	20	20
Redundancy	36	46
Migration	6	4
Pledge withdrawal	13	4
Average number of withdrawals per year	3713	5841

Source; SINPF data. Percentages do not add to 100 due to rounding.

Table 11.4 shows the percentage distribution of withdrawals during two periods including the years of ethnic conflict. Payments due to redundancies were elevated during the conflict period. What is particularly noteworthy is that in both periods only about 25 per cent of withdrawals from the SINPF were in respect of retirement at age 50. Withdrawals due to redundancies and retirement at age 40 on the grounds that one has left employment – however this can be ascertained – mean that few SINPF members have significant balances in their accounts at age 50. Non-repayment of housing loans and honouring pledges further deplete the balances available at age 50.⁷⁶

According to the SINPF 2004 accounts, loans to members amount to SBD 38.5 million, 13 per cent of the fund's invested assets. Managing a small loan portfolio of this size is a major and complex undertaking, quite different from managing a social security scheme. In the end, the fund recovers outstanding amounts from defaulting members' balances, thereby reducing the balances payable at the members' retirement.

The SINPF has thus become more of a savings scheme from which members can draw than a retirement benefits scheme. If the SINPF is to meet the objective of providing retirement protection, the benefit structure must be redesigned. In particular provisions allowing early withdrawals – however important these may be – must be removed if the SINPF is to provide retirement protection.

⁷⁵ It is reported that in May 2005, the SINPF has in the order of SI\$90 million available to invest.

⁷⁶ It is reported that currently the SINPF has around 200 housing loans of SI\$40 - 50 million in arrears.

(vii) ***Governance / Reporting /
Transparency / Public awareness***

The SINPF must – and must be seen to – operate independent of government or political interference and solely for the benefit of SINPF members for whom the Board is the trustee. While governments have a legitimate interest and responsibility for social security schemes, the ideal relationship between a social security institution and the government is the same relationship a central bank has with the government. The prudential supervision of the Central Bank can reinforce the independence of the SINPF.

The SINPF has not published an Annual Report since 1995/96. Publication of annual reports and information on the SINPF's operations would counter public scepticism and suspicion about the SINPF and enhance its credibility.

(viii) ***Pensions***

The SINPF can recover and operate as it did in the past. But would continuing to operate in this manner provide retirement protection for workers in wage and salaried employment and for their dependants? The Fund has strayed from providing a retirement benefit and become a savings scheme from which members can draw their balances long before their actual withdrawal from the labour force. In addition, members bear the investment risk – the risk that real returns on their balances will be negative and that the Fund's assets will lose value.

The SINPF could be bold and seize the opportunity to 'reinvent' itself as a retirement protection scheme which provides meaningful retirement benefits. It is generally recognized in the Solomon Islands that lump sum benefits are rapidly spent, and both workers' and employers' representatives agree that periodic payments – monthly pensions – along with a small lump sum would provide better retirement protection to workers.

A pension scheme would require the SINPF no longer to allow members to withdraw their balances in the event of redundancy or reaching age 40 and not in employment. Direct loans to members from the SINPF would no longer be possible (except on a strict commercial basis) and members would no longer be able to pledge their balances for loans from financial institutions.

The SINPF normal retirement age is 50, and the provident fund simply pays the accrued balance at that time. But age 50 is too low an age to start paying a meaningful pension for the balance of retired persons' lifetimes and survivors' pensions to their dependants. According to United Nations estimates⁷⁷, the current joint (male and female) life expectancy at birth in the Solomon Islands is 69.2 years. But what is important is the life expectancy of persons at the upper ages – 55 and 60. The United Nations estimates the current joint (male and female) life expectancy at age 60 for Solomon Islanders to be 16.1 years, and that the joint life expectancy will increase to 21.4 by 2050. In other words, on average, Solomon Islanders aged 60 now live to just over age 76. Retirement age should be set with reference to life expectancies at the upper ages – the lower the retirement age, the more expensive the pension scheme will be. Retirement age would have to be raised gradually to age 55 and eventually to age 60.

There are two principal alternatives whereby the SINPF could pay benefits in the form of pensions:

A. Conversion of lump sum payments into annuities

Under this system, at retirement age the lump sum withdrawal is multiplied by an annuity factor which determines the monthly pension. A SBD 10,000 withdrawal at age 55 would produce a pension of around SBD 1,000 annually thereafter. The member continues to bear the investment risk since the pension would not be adjusted to take into account future inflation.

Although the average amount of the lump sum at normal retirement age should increase as members have more years of contributions, interest will have been earned for longer periods and salaries on which contributions are paid increase, this system of providing pensions will not work properly for members of the SINPF scheme since members have reduced their lump sums payable at retirement by making early withdrawals. For most of them, for many years the lump sums which would be converted into pensions would be too small to produce meaningful pensions.

⁷⁷ From *World Population Ageing 1950-2050*, Population Division, United Nations Department of Economic and Social Affairs (ST/ESA/Ser.A/207), New York.

An alternative would be to offer retiring members the option of converting their lump sums into pensions. Members who take this option will be those few with large lump sums. Most workers will simply take their lump sums, which simply means that the present system would continue.

B. Conversion into social insurance pensions

A social insurance pension can provide much better retirement protection than a lump sum provident fund benefit which is often rapidly dissipated.⁷⁸ The pension is related to an employee's earnings history, and it is adjusted periodically to take into account inflation. In a social insurance pension scheme it is the scheme as a whole and the government as the ultimate guarantor of the scheme which assume the investment risk, not each individual member. The 12.5 per cent contribution rate would permit a modest pension and lump sum scheme to be set up.⁷⁹

The design and financing arrangements for a public pension scheme are major undertakings involving wide consultation with stakeholders and an actuarial valuation. A multitude of design and financing issues must be decided, including:

- Retirement age,
- Qualifying period for old-age, invalidity and survivors pensions,
- Pension benefit formula,
- Financial system to be applied,
- Provision of a minimum pension benefit,
- Transitional arrangements (including equitable arrangements to take into account members' periods as contributors to the SINPF and withdrawals which members have made from the Fund),
- Method of adjustment of pensions to take into account inflation, and
- Amount of lump sum benefit or portion of total contribution to be allocated to produce a lump sum.

⁷⁸ All the provident funds in the island states in the Caribbean have converted to pension schemes, and with the exception of Swaziland, in Africa provident funds have been converted or are in the process of being converted to pension schemes. In Africa the conversion has usually included a pension and a lump sum payment.

⁷⁹ In the ILO Social Security (Minimum Standards) Convention No. 102, for an average wage earner with a spouse of pensionable age, the minimum pension after a full working career (30 years) is 40% of the worker's earnings at retirement.

11.21.3 Reform of SINPF

Reform of the SINPF into a social security pension scheme could proceed in two stages:

1. Public information/awareness campaign

There must be widespread support for the conversion of the provident fund to a social insurance pension scheme. In addition to the support of the board and management of the SINPF, the active support of the Central Bank and concerned ministries, SINPF members and workers' organizations, and employers must be sought. The campaign would usually include public meetings and extensive use of the media. It is necessary to generate support for a modest pension scheme, while not creating unrealistic expectations.

The campaign is a national effort which must be directed by respected national leaders who champion the reform of the provident fund. The ILO can provide documentation and similar support to the campaign, but the impetus for reform must be national.

2a. Technical planning

Support for the conversion leads to the appointment of a planning committee consisting of the tripartite partners and other interested parties. The planning committee should set out a target timetable for the design of the pension scheme and actuarial valuation, the drafting and enactment of legislation establishing the scheme, and implementation of the scheme. Proposals for the design and financing issues mentioned above must be formulated and an actuarial valuation undertaken. The outputs of these activities would be presented to the planning committee, and once agreed they would be widely publicized. Once the proposals have been accepted, legislation can be drafted. Widespread support for the pension scheme should facilitate passage of the legislation.

2b. Implementation planning

At the same time technical planning is underway, an implementation committee should be set up to deal with pension scheme administration issues, especially the information technology requirements and arrangements for making monthly pension

payments throughout the country⁸⁰. Once an outline of the scheme has been agreed, the forms which will be required and systems can be designed. Staff requirements must be ascertained, staff recruited and arrangements made for staff training.

Technical and implementation planning must proceed according to a well-defined and realistic time frame. International expert advice is likely to be required. The ILO can help to design a project to cover the technical planning and implementation of the reform. Loans or donor assistance to finance the project can be sought, but a provident fund is generally the largest financial institution in a country and it is not always recognized that the assets of a provident fund are held in trust for its members, hence donors are reluctant to allocate scarce technical cooperation resources to projects involving provident funds. Since reform of a provident fund will benefit the current and future generations of members, it is not necessary to seek loan or aid funds since a provident fund can pay for the project itself and amortize the cost over a long period (20 years or more). The ILO has wide experience implementing such projects which are financed by the institution involved.

⁸⁰ Once they retire, pensioners will often move to the remote areas from which they came to work in wage and salaried employment. The SINPF must arrange to pay pensions to these pensioners regularly and on time.

Chapter 12 Unemployment Protection: Principles

12.1 Introduction

This Chapter has been produced against a background of worsening global employment trends, growing concerns about the serious problem of youth unemployment and slow progress in achieving gender equality at work. At the end of 2004 global unemployment was estimated as 184.7 million which was a slight improvement over 2003 but welcomed as the first such decrease in a decade. However, the fact that the global growth rate in 2004 was as high as 5 per cent but produced only 1.7 per cent more jobs was highlighted at the International Labour Conference 2005 as a grave concern over the imbalance between globalisation and growth and job creation *when more than a billion people are either unemployed or are considered as working poor*.⁸¹

ILO Global Employment Agenda in regard to labour market policies notes that in a globalized economy where competition has intensified, labour markets work best when there is an institutional environment that allows adjustment flexibility for firms whilst ensuring income, social and employability protection for workers. A shift is noted towards more flexible forms of employment and from employment protection at the company level towards social protection on a more collective level. The implication for developing countries is that they have to gradually stabilise and formalise their labour markets which calls for the introduction of labour standards and labour market institutions. *It is the embeddedness of private and public sector employment in a network of labour market institutions such as unemployment benefit, re-employment services and training schemes which is a condition for the management of change and a condition for decent work that can hardly be created by the private sector without the support of labour market institutions.*

In this context the number of unemployment benefit schemes has gradually increased in recent decades reaching 68 in 2004. These schemes have a long history in industrialised countries but were more recently developed in Central and Eastern Europe and in some middle-income developing countries. There are few schemes in developing countries. In some of the latter, the main strategy has been to organise labour intensive projects for infrastructural development. Such projects and programmes have directly assisted unemployed and under-employed persons by providing work that is scheduled for the off-season in rural areas at rates of pay that appeal only to the lower paid and hence achieve targeting objectives. These are persons who, in the main, are unlikely to be covered in contributory social security schemes which mean that this method of assisting the unemployed should continue if an unemployment insurance scheme is developed at a later stage primarily for persons in the formal sector.

The term *unemployment protection* should be understood to mean the full range of measures through the promotion of employment, employment services, vocational training programmes, and income support to assist the unemployed to find suitable employment. There are two main types of unemployment benefit schemes; social insurance systems that pool contributions and other income in autonomous funds from which benefits are paid (unemployment insurance schemes), and unemployment assistance schemes that apply social assistance principles of means-testing to determine entitlement to cash payments during unemployment. Some of the longer-established unemployment insurance schemes in industrialised countries also provide unemployment assistance to benefit recipients who are still unemployed and qualify under means test rules when their entitlement to insurance benefits is exhausted, and these schemes may also ensure financial support to persons who are ineligible for insurance benefits.

This Chapter comprises:

- Relevant concepts, principles and standards,
- Unemployment protection in practice, and
- Development of unemployment protection.

⁸¹ Quoted in the ILO press release on the speech by the Director-General Juan Somavia at the ILC 6 June 2005 who also stated that "We must repair the disconnect between economic growth and job creation, rebalance priorities, revalue work and target the right investment policies. We must move employment and decent work fully into the mainstream of the international development debate"

In addition summary information on selected unemployment insurance schemes in Asia is given in section 12.5 and an overview of the unemployment insurance scheme in Thailand, as an example of a scheme in a developing country, is provided in section 12.6.

12.2 Relevant concepts, principles and standards

12.2.1 ILO instruments on unemployment

The relevant ILO Conventions define the contingency of unemployment and prescribe the standards of unemployment protection. The first such Convention was approved at the first session of the International Labour Conference in 1919. However, some ILO instruments on this subject are now outdated and this report focuses on the post-war Conventions numbers 102 and 168 and the Recommendation 176 respectively and explains only those aspects that are directly relevant to this study. The titles of these instruments are as follows:

- Social Security (Minimum Standards) , Convention No. 102 of 1952,
- Employment Promotion and Protection against Unemployment, Convention No. 168 of 1988, and
- Recommendation on Employment Promotion and Protection against Unemployment, No. 176 of 1988.

12.2.2 Employment policy and unemployment benefits

Article 2 of Convention No.168 makes the stipulation that systems of protection against unemployment, and, in particular the methods of providing unemployment benefits, should contribute to the promotion of full, productive and freely chosen employment, and are not such as to discourage employers from offering and workers from seeking productive employment. This constitutes an important guideline for the design, adaptation and implementation of unemployment benefit schemes.

The emphasis on employment is evident from the stipulation in Article 7 that each member shall declare as a priority objective a policy designed to promote full, productive and freely chosen employment by all appropriate means, including social security. Such means should include, inter-

alia, employment services, vocational training and vocational guidance

12.2.3 Definition of the contingency

The basic concept in the Social Security (Minimum Standards) Convention (No. 102 of 1952) is of *suspension of earnings due to inability to obtain suitable employment in the case of a person who is available for and capable of work*. A further requirement that the applicant should be *actually seeking work* is contained in the Employment Promotion and Protection Against Unemployment Convention (No.168 of 1988). This is the definition of **full unemployment** in Convention No.168 which is at the core of the definitions found in national legislation governing unemployment benefit schemes that increasingly in recent years have stressed the requirement that benefit applicants are genuine job-seekers for whom the cash benefits are for the purpose of subsistence whilst they take sufficient time to find *decent work*, to use the term and concepts developed by ILO.

12.2.5 Suitable employment

This is a key concept that has to be understood and implemented in administering national schemes. Article 21 of Convention No.168 stipulates that benefit may be refused, withdrawn suspended or reduced when the claimant refuses to accept suitable employment. This situation may arise in the course of monitoring or enforcing job search rules and the employment services officials consider that, all things considered, the job available is reasonable and appropriate for the unemployed person but are unable to convince him or her to apply for it or take it, as the case may be. In determining whether employment is *suitable* account should be taken of:

- The age of the unemployed person,
- Their length of service in their former occupation,
- Their acquired experience,
- The length of the period of unemployment,
- The labour market situation,
- The impact of the employment in question on their personal and family situation, and
- Whether the employment is vacant as a result of an on-going labour dispute.

Recommendation No.176 lists the circumstances where the concept of suitable employment should not apply:

- Such as where the employment concerned involves a change of occupation which does not take account of the abilities, qualifications, skills, work experience, and retraining potential or involves a change of residence to a place where suitable accommodation is not available,
- The conditions and remuneration are appreciably less favourable than those generally granted in that occupation and district,
- The vacancy results directly from a stoppage of work due to an on-going labour dispute, and
- Reasons other than above make it not unreasonable, taking into account the family responsibilities to refuse the job offer.

In practice, interpretation of such guidelines may still differ between unemployed persons and the employment services and may lead to disputes, the application of sanctions in the form of benefit suspensions and, in some instances, to appeals to labour courts or their equivalent to resolve such disputes.

12.2.6 Partial unemployment

Convention No.168 also extends unemployment protection to partial unemployment which is defined as:

- Loss of earnings due to a temporary reduction in the normal or statutory hours of work, and
- Suspension or reduction of earnings due to a temporary reduction of earnings due to a temporary suspension of work without any break in the employment relationship for reasons of, in particular, economic, technological, structural or similar nature.

This convention states that each member shall endeavour to provide the payment of benefit to part-time workers who are actually seeking full-time work on the basis that the total of benefits and earnings from part-time work may be such as to maintain incentives to take up full-time work. However members may make a declaration under

Article 5 in order to defer implementation of provisions on partial unemployment.

12.2.7 Qualifying periods

The conventions do not contain specific provisions on the duration of qualifying periods and stipulate only that the qualifying period should be such as to preclude or prevent abuse.

12.2.8 Cash benefits

Article 15 stipulates that benefit shall be calculated in such a way as to provide the beneficiary *“with partial and transitional wage replacement and, at the same time, to avoid creating disincentives either to work or to employment creation”*.

Rates Where the benefit is based on the contributions paid by and on behalf of the unemployed persons or in respect of the previous earnings, Convention No.102 prescribes a rate of 45 per cent for a man with a wife and 2 children whilst the Convention No.168 prescribes 50 per cent. In other types of systems, where benefits are at standard rates or are based on need, the rates must be fixed at 50 per cent of the minimum wage or of the wage of an ordinary labourer or at a level that provides the minimum essential for basic living expenses, whichever of the three alternatives is the highest.

Duration As regards duration, a waiting period of up to 7 days is provided for and the duration of payment is prescribed as throughout the contingency in principle but this can be limited as follows:

- Under Convention No.102 where employees are protected up to 13 weeks within a period of 12 months and, where residents with insufficient means are protected, to a maximum of 26 weeks in a period of 12 months, and
- Under Convention No. 168, UP to 26 weeks in any spell of unemployment or 39 weeks over a period of 24 months but, if a country has obtained a temporary exception from this requirement under Article 5, the duration may be limited to 13 weeks over any period of 12 months.

Convention No.168 stipulates in Article 19 that the duration of payment to seasonal workers may be adapted to their occupational circumstances.

Some schemes aim to limit the entitlement to the normal working period and to exclude the off-season periods when there is no loss of earnings to be compensated.

12.2.9 Other benefit rights

Convention No.168 contains other important provisions concerning other benefit rights:

- Where the unemployed persons were entitled to medical care for themselves and dependants by virtue of their previous employment (for example, through a social health insurance scheme) Article 23 provides that this entitlement may be maintained for persons in receipt of unemployment benefit, and
- The periods of benefit should be taken into account for rights to pension benefits, medical care and sickness and maternity benefits after the end of unemployment.

This means that persons who are members of an integrated and comprehensive scheme and cease to contribute because of unemployment would not lose all rights during the period of unemployment and be forced to obtain and pay for medical care from other sources for themselves and their families. Furthermore, by crediting periods of unemployment benefit the contribution records of the unemployed would not depreciate affecting entitlement to short-term benefits when back in work and their rights to pension protection in future. However, such provisions may not be applied where a declaration has been made by a country where it is justified by the extent of protection of its social security system.

12.2.10 Restriction on benefit entitlement

In addition to the suspensions in relation to refusal of suitable employment, Article 21 of Convention No. 168 prescribes other circumstances where benefit may be refused, withdrawn, suspended or reduced, including:

- When it has been determined that the person concerned had deliberately contributed to his or her own dismissal, or has left employment voluntarily without just cause,
- During the period of a labour dispute, when the claimant has stopped work to take part

in a labour dispute or when he or she is prevented from working as a direct result of a stoppage of work due to this labour dispute,

- When the claimant has attempted to obtain or has obtained benefits fraudulently, and
- When the person concerned has failed without just cause to use the facilities available for placement, vocational guidance, training, retraining or redeployment in suitable work.

12.2.11 Financing

Convention No. 102 prescribes that the cost of benefits and the administration of the scheme shall be borne collectively by way of insurance contributions or taxation or both in a manner which avoids hardship to persons of small means and takes into account the economic situation of the country and the classes of persons protected.

The total of contributions by employees shall not exceed 50 per cent of the total contributions except those for family benefit and employment injury benefit.

12.3 Unemployment protection in practice

12.3.1 Objectives and roles of unemployment benefit schemes

The main purpose of social insurance and social assistance systems for the contingency of unemployment is to provide financial support whilst the unemployed person obtains re-employment with the help of organised employment services and, where necessary, re-training schemes. Other objectives are:

- To help maintain aggregate consumer demand during periods of economic difficulties that have lead to extensive unemployment and to prevent or minimise a downward spiral of further economic decline that could cause more rounds of job losses,
- Promote better utilisation of labour by encouraging unemployed workers to find appropriate jobs and, where necessary, develop their job skills to meet current demands of the labour market, and

- Help industries to maintain skilled work forces as trained workers are not forced to seek other jobs, and thus are free to return when job openings occur.

The introduction of unemployment insurance, or an unemployment assistance scheme, such as those in Australia and New Zealand, may have an effect on aggregate disposable income, consumption and savings. Benefit entitlement might deter some workers from seeking rapid reintegration into the labour market as it is intended to provide a breathing space to find suitable jobs. In the case of short-term schemes that may be implemented in developing countries to provide a proportion of the unemployed modest levels of income support for limited periods, the effect on the overall cost of the scheme and the economy as a whole should be negligible. There are only marginal effects to be expected on average labour costs and on consumer price levels.

On the other hand, there are economic costs of not having any unemployment benefit system. They result from:

- Passive or active resistance by workers to structural change and unwillingness of the workforce to cooperate in the introduction of new technology due to concerns that some may lose their jobs⁸²;
- Political tensions and social unrest when large numbers of workers have to be laid off;
- The tendency to claim other social security benefits (invalidity benefits, cash sickness benefits) when the contingency of unemployment is not covered; and
- The temptation to establish other more costly and less effective schemes to provide protection in the event of job loss (employment assistance programs).

The contingency of short-term and frictional unemployment can be considered a risk that can be protected under social insurance principles of pooling risks and finances in autonomous funds. The special characteristics of unemployment relate to the difficulties of predicting or projecting

the extent of unemployment which could arise from one or more of numerous economic factors and, furthermore, could be localised and temporary at one extreme or widespread and structural in nature at the other. As industries adapt to market forces and introduce new technological methods that place new demands on employees they may be expected to be increasingly subject to re-training, more mobile and adaptable. In such circumstances, unemployment benefit schemes have a key role in adapting labour supply to demand.

In the context of more open economies in the era of globalisation the importance of such schemes is enhanced. However, the limited number of unemployment benefit schemes worldwide, and notably in developing countries, underlines the difficulties of designing and administering these systems effectively in countries where coverage is narrow, job creation is limited and relatively large informal sectors exist.

Information on the experiences of unemployment benefit schemes is provided in the following sections.

12.3.2 Overview

Whilst unemployment benefit schemes operate in all industrialised countries there is some variation in the standards of protection they provide. One group that includes Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland is noted for the extensive coverage and high level and long duration of unemployment insurance benefits, which may be backed up by unemployment assistance for workers who do not qualify or have exhausted their entitlement to insurance benefits.⁸³ These countries generally have high levels of employment protection. A second group that includes Australia, Canada, Japan, New Zealand, the United Kingdom and the United States provide relatively lower levels of income protection and more limited employment protection.

In Central and Eastern Europe, new schemes were introduced near the end of the 1980s which

⁸²“The existence of a good unemployment insurance system creates a feeling of security among the workforce which can greatly facilitate structural change and technological innovation that workers might otherwise perceive a threat to their livelihoods.” Social Security A new consensus” ILO Geneva 2001

⁸³ The main sources for this section are “Social Security A new consensus” ILO Geneva 2001 and the International Workshop on the Role of Employment/Unemployment Insurance under the New Economic Environment, Seoul, Korea September 2001.

have since been subject to reforms, especially to limit benefit duration; one of the main concerns has been the limited coverage of these systems. In some middle-income developing countries unemployment benefit schemes are in their early stages of development facing the need to extend coverage and increase the effectiveness of re-employment strategies. In some Latin American countries government finances the schemes (Brazil and Chile) and rates of benefit are in the range 40 to 80 per cent of previous earnings. Barbados pays 60 per cent of average earnings for a maximum of 26 weeks. In China the levels of income protection provided in local jurisdictions are generally low and the scheme in South Korea, which has succeeded in extending coverage quite widely, pays only 50 per cent of average earnings for periods related to length of insurance and vary from 3 months to a maximum of 8 months for persons with disabilities, or are aged over 50 and have over 10 years insurance.

In many of the long-established schemes, in addition to the intensive support for job-search activities at the individual claimant levels the basic strategy is to stimulate job creation and re-employment through active labour market programmes. For example, in Japan the government subsidises selected enterprises that are experiencing difficulties where it appears that a financial injection will prevent job losses (rather than merely postpone the inevitable), and also to encourage the hiring of hard-to-employ older workers; furthermore, other measures are brought to bear to avert closures or extensive job losses. In addition, the scheme, which has the title of Employment Insurance to signify its principal objective, pays allowances during vocational training, transportation, moving and lodging expenses to trainees and to persons seeking employment outside the immediate commuting area and certain other costs associated with re-location for the purposes of re-employment.

The Swedish system has long accorded a high value to vocational training and promotes a widespread training culture to improve capabilities of the work force with the emphasis on regular updating and increasing the relevance of vocational training for changing labour market needs. Wage subsidy programmes have been in operation since the 1930s. One issue was whether wage subsidised jobs should be at the same pay rate as other jobs. In practice, wages have been at benefit or minimum wage levels. Trade unions and others debate the value of wage subsidies for

providing employment because of concerns that certain enterprises try to exploit wage subsidies schemes. The programmes included support for small companies, job creation in regions with high unemployment, and subsidised jobs for unemployed persons.

Some of the main active labour market programmes in Germany are as follows:

- Support for further vocational training,
- Job creation measures to provide temporary jobs for long term unemployed persons,
- Wage subsidies using resources otherwise payable as benefit in order to provide temporary employment,
- Integration subsidies, the purpose of which is to obtain permanent employment for disadvantaged workers by compensating employers for lower performance,
- Recruitment subsidies for new businesses to employ up to two unemployed persons,
- Subsidies for recruiting long-term unemployed persons, and
- Start-up grants for persons entitled to benefit but wishing to start businesses may be entitled to a lump sum of 6 months benefit.

Most countries keep such policies under review to evaluate their effectiveness and adapt them to changing requirements.

12.3.3 Costs of unemployment benefit schemes

A study carried out under the auspices of the ISSA Technical Commission on unemployment insurance and employment maintenance has analysed the costs of unemployment benefit schemes, using data from 32 national systems.⁸⁴ As the study indicates, the main factors that determine such costs in a national schemes are:

- The unemployment rate,
- Access to the programme as reflected by the ratio of beneficiaries to the unemployed, and
- The level of income support as indicated by the replacement rate which is measured by the ratio of average payments to the average earnings amongst the covered worker.

⁸⁴“ International evidence on unemployment compensation prevalence and costs” Wayne Vroman, Economist, Urban Institute USA.

The main findings were that amongst 32 countries for which data was available for the analysis

- the costs were highly varied during the 1990s across the 32 countries,
- Costs were highest amongst the OECD countries reflecting the wide scope of the schemes and high benefit levels, and
- High costs were most pronounced amongst countries with combined unemployment insurance and unemployment assistance schemes.

A simple average of the 32 countries found that the cost rate as a percentage of payroll was 2.03 per cent for the 1990s but there is some variation for the component regions and groupings due to the basic differences in the structure, scope and standards of income protection, as follows:

- OECD -3.20 per cent,
- East and South Asia- 0.18 per cent,
- Central-Eastern Europe-1.33 per cent,
- South America-0.34 per cent, and
- Others-0.02 per cent.

12.3.4 Recent reforms

In general, over recent decades as countries have implemented employment policies as a high priority, the roles of unemployment benefit schemes have come under scrutiny and, in some instances, reforms have resulted that are designed to reduce expenditures and increase the re-employment rate of the unemployed beneficiaries. These reforms have taken place against a background of rising unemployment and increasing uncertainty about future employment growth. Another factor which must be acknowledged is that, in many countries, systems of cash benefits for the unemployed have less public support than for other types of social security protection. This is because of the belief that amongst the unemployed there is a proportion who have no real intention of urgently seeking another job and are satisfied with the income from benefits, whether or not this is supplemented by undeclared earnings from clandestine work.

The dilemma of the scheme administrators and particularly the employment offices, is that whilst aiming to provide effective and professional

services to all persons on the unemployment register, they must prevent waste of resources and fraud and deter persons who aim to exploit the system. One important point is that many of the genuine job-seekers succeed in finding work through their own efforts since it is common for persons to use personal initiatives to find work rather than be provided with job offers at the employment offices. This limits the possibility of employment offices offering suitable work to such persons and to apply sanctions to those who refuse without good cause. However, the enforcement of suitable job and training offers and penalising refusals by means of benefit reductions is one of the most effective administrative procedures available in the implementation of the job-seeking systems.

(i) *Australia*

One of the key provisions in the Australian unemployment assistance scheme, which is based on the principle of means-testing, is the *activity test* that demonstrates the eligibility of claimants to *Newstart* allowance (NSA which is for persons aged 21 to pension age) and Youth Allowance or YA (for young people aged between 16 and 24 who are either studying full-time if between 18-20 and are unemployed and looking for full-time work). The main impetus for changes was to ensure that only genuine job-seekers should qualify for cash payments and to maintain the supply of labour by encouraging the unemployed to actively seek work and to accept suitable employment.⁸⁵

The main changes included:

- The introduction of a Job-seeker Diary issued to recipients of NSA and YA to record details of job-search for checking and review purposes,
- Enforcement of Employer Contact Certificates to be signed by employers as proof of contacts by job-seekers,

⁸⁵ "Unemployment insurance : Importance and potential for developing countries: Unemployment assistance in Australia: Recent developments" Graeme Hope, Department of Family and Community Services; ISSA Meeting of Directors of Social Security Organisations in Asia and the Pacific, Malaysia, November 1999.

^{85a} "Unemployment insurance : Importance and potential for developing countries: The Canadian experience : Administering benefits for the unemployed-a 60 year voyage" J. Mc Whinnie, HRD Canada; ISSA Meeting of Directors of Social Security Organisations in Asia and the Pacific, Malaysia, November 1999.

- Re-definition of *unsuitable work* to expand the scope of job-seeking activities
- A *Work for the Dole* initiative to foster work habits through work for the community in exchange for unemployment allowances, and
- Simplification of activity test breach penalties under which claimants who fail the activity test for the first or second time incur a benefit reduction of 18 to 24 per cent respectively for 26 weeks, whilst a third breach within a two-year period attracts an 8 week non-payment period; whilst serving these penalties it is still necessary to keep up job search activities.

In the administrative sphere, 1997 saw the creation of *Centrelink* to improve services to social security beneficiaries and job-seekers. This organisation integrates the delivery of income support with the functions of registration for re-employment, assessment and referral for labour market assistance. The reforms replaced the public employment services with Jobs Network which comprises public, community and private providers of employment services who are paid on outcomes that is, when they place an unemployed person in a job. The unemployed persons have the right to choose the providers they prefer which increases the pressure of market forces on these providers to maintain competitiveness through technological and other improvements in their systems.

As in other countries, these reforms were introduced after careful assessment of the strengths and weaknesses of the current systems, and this process continues to ensure that the objectives of facilitating re-employment are met in the most cost-effective manner.

(ii) *Canada*

Canada introduced unemployment insurance in 1940 and the scheme has undergone extensive revisions at various stages in relation to changing social and economic conditions in the country. This process of change has culminated in the introduction of Employment Insurance (EI) in 1997⁸⁶ which replaced the scheme that was transformed by legislation enacted in 1971. The coverage is now extensive amongst employees,

including federal government employees, with the self-employed excluded, although persons engaged in fishing are covered in a separate scheme. The changes introduced 1971 had extended coverage, enhanced benefits, reduced qualifying tests and had prescribed limited penalties for persons who voluntarily gave up work or were dismissed for misconduct. At various times as a reaction set in to the generosity of the new scheme, amendments were enacted that were designed to reduce expenditures and the scope for abuses, including provisions to tighten eligibility rules and to enforce job-search.

After considerable and lengthy research and public debate, the EI system was adopted which has tightened eligibility and curtailed the duration of benefit payments. *The purpose of the EI reform was, in fact, to discourage people from dependency on public funds, and, instead, to encourage employment. This has meant more investigations and control activity and stiffer penalties for both employers and claimants who have committed fraud.* The changes include:

- Stricter qualifying rules that also curtail entitlement duration,
- Stronger penalty and repayment provisions in fraud cases,
- An improved system for data matching in fraud cases,
- Where the unemployment is due to voluntary leaving an indefinite disqualification is applied, and
- Refusals of suitable jobs or training, results in benefit disqualification of between 7 and 12 weeks.

The focus has shifted to active measures to stimulate employment. There are targeted wage subsidies, self-employment assistance to support persons starting new businesses, targeted earnings supplements and job creation partnerships to help unemployed persons to acquire work experience. Following this comprehensive reform, some concerns have been expressed that this has gone too far and now some categories such as part-time workers, who are predominantly female, may have difficulties in qualifying. It appears that the debate in Canada on this important programme is still on-going and that the process of change is likely to continue.

(iii) United Kingdom

In the 1990s concerns arose that despite satisfactory economic growth relatively large numbers of social security beneficiaries were of working age. The UK Government's approach to maximising the numbers in work is through:

- More active personalised labour market policies to move more beneficiaries into work,
- Measures to ease the transition into work, and
- Measures to ensure that work pays better than welfare.⁸⁷

More active labour market policies. Claimants to job seekers allowance must agree to an action plan for job search and have to report every two weeks to the Job Centre for review of progress. Failure to comply leads to sanctions that result in the reduction or termination of benefit. Although generally successful, it was decided that this system needed more intensive targeting for particular groups. Special programmes which are termed *New Deals* were devised. Summarised below is a selection of typical categories that present challenges to many unemployment benefit schemes.

New deal for young people This offers special help to 18 to 25 year olds unemployed for six months through intensified support on careers advice and job search for 4 months followed by mandatory full-time activity through one of the following options:

- Work experience with an employer or a voluntary organisation,
- Training or education directed at particular occupations, and
- Practical help in applying for jobs, including interview practice.

Subsequent follow-up takes place to ensure that experience is utilised to ensure career prospects are enhanced. The initial evaluation indicated that long-term youth unemployment was reduced by about 40 per cent and that the system is close to

self-financing. One of the success factors is considered to be employer involvement in the design of the scheme.

New deal for the long-term unemployed. This focuses on persons over age 25 who are unemployed for 18 months or more (initially for 24 months) and consists of personal adviser services for job search, a wage subsidy and opportunities for full time education and training. In the first two years over 250,000 had joined the scheme and over 45,000 had found jobs. From April 2002, when the scheme was extended to persons unemployed for eighteen months or more, the unemployed have to undertake three months mandatory activity on similar options to the new deal for young people.

New deal for 50+ From April 2000 persons aged 50 or more and unemployed for six months or more were given personal advisers, training support and employment financial credits of amounts according to whether the aim is full-time, part-time or self-employment.

The introduction of Job-Centre Plus was a noteworthy development after decades of reliance on coordination between the offices of the Department of Social Security and employment exchanges under the Ministry of Labour. In October 2001 Job Centre Plus was established by merging the Benefits Agency from the Department of Social Security and Employment Services from the Ministry of Labour into a single operational unit. This comes under the newly-created Department of Work and Pensions. The purpose is to emphasise work rather than welfare as the major objective of the system. Personal advisers for clients and enhanced IT systems are key features which aim to provide efficient services to employers and clients of the system.

One of the obstacles to re-employing persons on social security benefits has been the disincentives created by gaps in cash flows in the transitional period and the loss of some entitlements accruing to long-term beneficiaries. This has been addressed by extending the duration of certain types of cash benefits for persons so that they overlap with initial earnings and ensure that they have sufficient financial incentives to re-enter the work force and rely on their earnings.

⁸⁷ The main source of information is a country paper presented at the International Workshop on the Role of Employment/Unemployment Insurance under the New Economic Environment, Seoul, Korea September 2001.

12.3.5 Analysis of unemployment insurance schemes in Asia

Figure 12.1 contains summary information on 6 of the unemployment insurance schemes in Asia, comprising one of the oldest in Japan launched in 1947 and the newest that were introduced in Turkey in 2000 and Thailand in 2004. This description highlights the coverage, financing, qualifying conditions, benefit entitlement and administration as illustrating some national approaches to the main features of interest for this study.

(i) Coverage

is often introduced at a late stage in the development of national systems of social security protection and it is to be expected that the new scheme will be extended to the same types of insured persons, with the exception of voluntarily insured persons and self-employed contributors who are usually ineligible for this form of social insurance. This is the situation in Turkey and Thailand whilst the delivery of unemployment insurance benefits was delayed by 24 months in Mongolia from the date of introduction of the new comprehensive social insurance scheme in order to build up the finances of the unemployment insurance branch

The scheme in China that was brought into force in 1986 had as its main target the employees in State owned enterprises which typically employed 90 per cent or more of urban employees and were due for re-structuring, involving the redundancy of many millions of workers across the country. The scheme has now been extended to urban enterprises and institutions. Japan has achieved very wide coverage amongst all types of employees, including separate schemes for civil servants, seamen and day labourers (or casual workers), except for enterprises with fewer than 5 regular workers in the agriculture, forestry and fishing sectors. The latter are entitled to join the scheme voluntarily but the enterprises and their employees opting to join pay higher contribution rates that are based on past benefit experience.

The Republic of Korea has made rapid strides to extend the unemployment insurance scheme that was launched in 1995 that came under severe pressure when the Asian financial crisis caused extensive unemployment in the country. Special schemes were established for categories not

covered by the main scheme. However, the scheme is not compulsorily enforced amongst enterprises with fewer than 5 workers in the agricultural, forestry, fishing, hunting sectors, or small-scale construction projects or amongst domestic workers all of whom have the right to membership on a voluntary basis.

(ii) Financing

Unemployment is a short-term contingency which is difficult to predict with the same degree of accuracy as for other social security contingencies. The main determinants of unemployment benefit costs are the coverage, the extent and duration of unemployment amongst the protected groups and the standards of income support. A pay-as-you-go system is appropriate with a contingency reserve of a minimum of 6 months benefit expenditure. This system, which is backed up by a government guarantee of solvency, has advantages over holding substantial reserves that may be vulnerable to diversion.

The cost of administration of the fund has to be estimated and issues may arise about the method of financing employment services and training schemes. There is no standard pattern but generally the unemployment insurance fund is responsible for the costs of administering the fund but not the employment services and training schemes which may be financed mainly or entirely by government budgets. These two types of services are available to the population as a whole, including new job-seekers who were not previously insured, and not only the unemployed. In such situations, the social security organisation may pay for the services provided through a formula related to numbers and costs of claims work at the employment offices and the costs of training courses that were provided to the unemployed. Practices vary in regard to these different types of administrative costs.

Three of the countries rely on bi-partite financing whilst three countries also make use of government subsidies. Consequently, there is some variation in the contribution rates charged as Mongolia levies a total of 1 per cent shared equally between employers and employees compared with a total of 4 per cent in Turkey consisting of 1 per cent each by employees and the government and 2 per cent by employers. As already mentioned, Japan has introduced some differential contribution rates for employers and employees whilst government provides 25 per

cent of benefit costs (33.3 per cent for the special scheme for casual workers) and 12.5 per cent of special allowances for new-born children and for older workers.

In the Republic of Korea, which operates an Employment Insurance Scheme (EIS), employees, pay 0.45 per cent and employers are charged between 0.7 and 1.3 per cent according to the size and type of enterprise. These variable rates are related to the vocational training systems which come within the framework of the Job Skill Development Programme; the latter is seen as crucial for economic development on the premise that the country can obtain a comparative advantage through a skilled workforce. The separate fund finances training for employees as well as the unemployed. Another feature is that employers may obtain low-interest loans from this fund for the purpose of establishing vocational training systems and purchasing equipment. The EIS scheme operates three funds for unemployment benefit, job skills development and employment stabilisation respectively. One of the latter's aims is to support enterprises financially through difficult periods by means of loans in order to prevent or minimise lay-offs.

(iii) *Qualifying Conditions.*

As a short-term benefit, the qualifying conditions relate to recent periods of insurable employment which in some instances is combined with a requirement for a longer basic period of unemployment insurance contributions paid at any time since entry into unemployment insurance. Another series of conditions are applied in relation to employment – that the claimants are registered at the employment office and are capable of and available for work and usually that they are actively seeking work.

The objective of the insurance conditions is to balance requirements for proof of covered employment with the needs of the unemployed for a partial replacement income. Mongolia imposes a strict qualifying test of 24 months contributions paid at any time and 9 monthly contributions in the 9 months preceding the unemployment. The qualifying condition in Turkey consists of a minimum of 600 days of contributions in the last 3 years including the 120 days before the unemployment commenced. In contrast, the rule in China is a minimum of one year insurance, Japan calls for 6 months contributions in the last 12 months, or 1 year of

insurance in the last 2 years for part-time workers, Korea stipulates only 6 months coverage in the last 18 months and Thailand 6 months contributions in the 15 months preceding the commencement of the unemployment.

(iv) *Benefit entitlement*

In general, benefit rates are set so as to ensure a basic level of income and adequate incentives to return to full earnings status, and duration also is carefully determined in order to allow a reasonable but not too lengthy amount of time to obtain re-employment. Countries in this selection provide examples of different approaches such as standard systems in some countries and variable entitlements according to factors considered important in others.

In **China**, local governments set the benefit rates between the public assistance scales and the local minimum wage and pay for up to one year where the unemployed person has less than 5 years insurance, 1.5 years for from 5 to less than 10 years and 2 years for persons who have contributed for 10 years or more. The replacement rate is relatively low in the context of low reemployment rates.⁸⁸

The Republic of **Korea** applies a 7 days waiting period and pays 50 per cent of insurable earnings for between 90 days, which is for persons with from 6 to 12 months coverage, and a maximum of 240 days for those with 10 or more years coverage or are over age 50 or are disabled; the benefit rate is protected by a proviso that it cannot be less than 90 per cent of the minimum daily wage whilst the maximum is prescribed in monetary terms (currently KRW 35,000). The scheme is also able to assist persons who need to move to other areas for employment purposes by paying a National Job-Seeking Allowance and other expenses; benefit duration can be extended for the purpose of income support during training.

Japan has developed a complex system which takes into account several factors in determining the rates and duration of benefit, including the levels of average earnings as the amounts payable vary inversely to the benefit of lower-paid workers, the age of the unemployed if between age 60 and 64, whilst benefit duration is related to

⁸⁸ Unemployment Protection System in China: Reforms, Progress and Challenges" Vivian Chen, World Bank, presented at the ISSA General Assembly, Beijing, September 2004

reasons for the unemployment and may be increased for other reasons. The rate is between 50 and 85 per cent (or 45 to 80 per cent for those claimants who are between 60 and 64 years old) and this is payable after 7 waiting days for between 90 and 150 days according to such factors as:

- Length of coverage,
- Age,
- Reasons for the unemployment, and
- Job prospects.

Additional periods ranging from 30 to 210 days can be paid in case of unemployment caused by an industry in recession which makes re-employment more difficult, with claimants undergoing training or suffering from physical or mental stress. The scheme also provides a series of special payments such as an allowance for older workers, new-born child allowance and family care leave benefit, and provides financial support for persons who relocate to take up jobs in other areas.

Mongolia relates the benefit amount to length of insurance. The rate is set at 45 per cent for up to 5 years insurance, 50 per cent for between 5 and 10 years, 60 per cent for from 10 to less than 15 years and 70 per cent for 15 years or more. The maximum benefit duration is 76 working days which commences when the period of severance pay is completed.

Thailand also uses the 7 waiting days rule and pays the persons who are involuntarily unemployed 50 per cent of previous average earnings for up to 180 days in a period of one year. Claimants who left their jobs voluntarily are entitled to 30 per cent for a maximum of 90 days in the period of one year. This is an unusual provision that was included at the request of trade unions concerned about instances of enterprises that did not formally make workers redundant but ceased or were unable to pay them leaving them little option but to leave and seek other jobs whilst their complaints are investigated. In fact, this category of claims for voluntary leaving was the largest in the first year of paying benefits.

Turkey sets the minimum monthly benefit at 50 per cent of average earnings over the last 4 months which is payable for varying periods related to length of service; 180 days for workers with 600 days of contributions, 240 days where

900 days were paid and for 300 days if 1,080 or more days were paid into the scheme.

(v) *Administration*

All unemployment insurance schemes have to apply both insurance and labour market conditions and therefore need to establish suitable arrangements to coordinate these functions, including compatible computer systems linking the social security and employment offices respectively for exchanges of information on claims. The scheme in China is administered by local social insurance agencies in municipalities in collaboration with the local networks of employment offices. The unemployment insurance scheme in Japan comes under the jurisdiction of the Ministry of Health, Labour and Welfare and is implemented by the Employment Insurance Sections of the prefecture Labour Departments and the Public Security Offices which collect contributions and pay benefits. In the Republic of Korea the Korea Labour Welfare Corporation collects contributions and the Employment Security Offices pays the benefits. In Mongolia the State Social Insurance General Office (SSIGO) administers an extensive and integrated scheme and in the case of unemployment insurance the SSIGO collaborates with the employment services under the Central Employment Office. Thailand operates a comprehensive social insurance scheme through the Social Security Office (SSO) under the Ministry of Labour and has launched the unemployment insurance in collaboration with two other organisations under the Ministry – the Departments of Employment and of Skills Development respectively. The Social Insurance Institution in Turkey has added unemployment insurance to its existing scheme and administers it in conjunction with a national network of employment service offices.

12.4 Development of unemployment protection

12.4.1 Policy framework and issues

(i) *Employment as the Prime Objective*

Undoubtedly, employment creation is the overarching goal of countries of all types, and developing countries are formulating their own national policies and strategies in this sphere. The general discussions on social security held at the International Labour Conference in June 2001

included the subject of Income Security for the Unemployed and Employment. In the debate, numerous references were made to the particular problems of developing countries and the prime need for measures to assist the unemployed through such measures as labour intensive employment projects and by carefully designed unemployment insurance schemes within the framework of active labour market policies to help the unemployed. Some of the main points in the Conclusions concerning social security were as follows. *For persons of working age the best way to provide a secure income is through decent work. The provision of benefits to the unemployed should therefore be closely coordinated with training and retraining and other assistance they may require to find employment. Unemployment benefits should be designed so that they do not create dependency or barriers to employment. However, benefits must be adequate. Where it is not deemed feasible to establish a system of unemployment benefits, efforts should be made to provide employment in labour intensive public works and other projects as is successfully done in a number of developing countries.*⁸⁹

(ii) **Role of unemployment benefit Schemes**

This study has shown that unemployment benefit schemes are part of a system to return unemployed persons to suitable employment consisting of policies and strategies for job creation, comprehensive employment services (comprising as a minimum, assessment, vocational guidance, advice on job search and access to vocational training programmes). The issue for many developing countries as they implement and adapt employment policies to changing economic situations is whether and when to introduce an unemployment benefit scheme.

Unemployment protection can be provided in different ways. It is widely recognised that the requirements for establishing an effective unemployment insurance scheme are difficult to meet in the majority of lower-income developing countries and that a more feasible strategy may be to provide employment through labour-intensive public works and similar projects. A key step therefore is to define target groups and the appropriate methods of assisting them. Public works projects are designed for the unemployed

and under-employed persons who are generally low-skilled and part of the *working poor* in rural and urban areas. This type of action involves the commitment of public funds to carefully-designed projects that contribute to the improvement of the infrastructure, and, as such, constitute a valid strategy to cope with part of the unemployment problem. For workers in the formal sector who are members of contributory social security schemes there is a choice of methods between unemployment insurance and unemployment assistance schemes, but it is assumed that such a scheme would be self-financing through contributory social insurance and not a form of unemployment assistance financed by government revenues for which there are many competing priorities. The extension of coverage of national social security schemes is a prime aim which is important for unemployment insurance schemes that should protect persons particularly vulnerable to unemployment as well as those in secure jobs.

Policies for job creation may encompass the establishment and expansion of effective networks of employment service offices linked to labour market information technology systems and vocational training schemes which may use private as well as public sector providers. The development of such systems would increase the feasibility of, and may be considered as pre-requisites for, establishing a modest unemployment insurance scheme that can play a key role in providing adequate levels of income support for a limited duration to enable the unemployed to take sufficient time to find decent work with the aid of the employment services, if required. On the other hand, introduction of a scheme before the economy has the capacity to generate an adequate supply of new jobs on a regular basis and when the labour market institutions are not fully established means that the system may become liable for cash payments for longer durations than estimated raising issues of solvency and whether objectives can be achieved.

(iii) **Severance pay**

Issues may arise when severance pay is prescribed under labour protection legislation. This type of benefit may stipulate payments by employers to workers who are declared redundant (and possibly also on retirement) and may consist of entitlement to a certain number of weeks or months pay per year of service within some

⁸⁹ Conclusions concerning social security in "Social Security A new consensus" ILO Geneva, 2001

limits. Employers may resist proposals for them to pay into unemployment insurance schemes as well as to provide severance pay. Article 22 of Convention No. 168 provides for the coordination of severance pay and unemployment insurance as follows:

Where protected persons have received directly from their employer or from any other source under national laws and regulations or collective agreements, severance pay, the principal purpose of which is to contribute towards compensating them for loss of earnings suffered in the event of full unemployment:

- *the unemployment benefit to which the persons concerned would be entitled may be suspended for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered; or*
- *the severance pay may be reduced by an amount corresponding to the value converted into a lump sum of the unemployment benefit to which the persons concerned are entitled for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered, as each member may decide.*

This would mean that an employee who receives 3 months severance pay could have the following adjustments in unemployment benefit:

- A delay of 3 months in entitlement to benefit or a reduction of 3 months in the duration
- As above but on a partial basis such as a delay or reduction of 2 months in respect of the 3 months severance pay.

Very little information is available on the adjustments made, if any, in some countries in the entitlements under these two schemes (however, the example of Mongolia is given in section 12.3 (iv) above), but it appears that in many countries rights to severance pay are unaffected by the introduction of unemployment insurance. The main alternative possibilities in regard to severance pay and unemployment benefits are:

- Treat them as separate and complementary benefits,

- Reduce severance pay entitlements to some extent or phase out altogether with the introduction of the unemployment insurance scheme, and
- Adjust entitlements under unemployment insurance to compensate for the expenditures on severance pay.

National systems of social protection are built-up gradually and it may well be appropriate in particular countries to adjust the existing entitlements in relation to new benefits for the same or similar contingency after careful reviews and social dialogue. The guidelines for this type of adjustment should include the preservation of acquired rights to benefits and rights in the course of acquisition under the employment contracts and legislation on labour protection and social security.

12.4.2 Conditions for the introduction of limited unemployment insurance protection

In the majority of developing countries the paramount objective is to adapt and revitalise the economy to raise the living standards of the population and improve employment generation. When expansion of the economy and development of the private sector gain more momentum and economic indicators show consistent improvement, this situation may in due course warrant investments in employment services and labour market information as well as increases in vocational training programmes to counter skills shortages that can slow progress in economic development and employment generation. Such a range of developments could provide a basis for considering the role that a suitable modest unemployment insurance scheme could play in adapting labour supply to demand and maintaining progress in implementing decent work priorities

The analysis conducted by the ISSA Technical Commission on unemployment insurance and employment maintenance found that decisions to introduce unemployment benefit may be linked to improvements in a country's income and to its geographic area.⁹⁰ The latter refers particularly to trends that occurred in Eastern Europe when unemployment insurance schemes were

⁹⁰ International evidence on unemployment compensation prevalence and costs" Wayne Vroman, Economist, Urban Institute USA.

introduced as a political imperative in some countries to cope with the new phenomenon of unemployment although all pre-requisites were not necessarily met. Such trends can develop also from the introduction of a number of national schemes in a particular region, such as East Asia. As regards higher per capita incomes, the study found that the generally low income levels of the newly independent countries after 1949 contributed to the generally slow pace of adoptions of unemployment benefit schemes after that date. However, social and political factors that vary in importance from country to country may have considerable significance in the decision-making process on this issue.

The low number of even short-term unemployment insurance schemes in developing countries is not surprising considering the requirements for the introduction of unemployment insurance. Essential conditions include:

- A sound or reasonably sound economic situation generating consistently higher demands for labour and improving affordability, as indicated by improved per capita incomes amongst the insured population,
- Support for the investment of public funds in organizing the network of employment centres and training schemes,
- A wide consensus on the establishment of the contributory unemployment insurance scheme, especially the essential sense of solidarity amongst the insured employees for a system of pooling risks in contrast to defined contribution schemes with which

they are familiar since some may expect to draw heavily on the scheme and others may envisage never claiming,

- A well-functioning national network of employment service centres operating with access to suitable vocational training courses, and a system of active labour market programmes that can be brought into force when necessary; and
- An efficient social insurance administration with consistently low contribution arrears and the capacities to gradually extend coverage and to collaborate with employment centres in the implementation of unemployment insurance, the most difficult to administer efficiently of all social insurance schemes.

It is most advisable that social protection policies are developed in conjunction with labour and employment policies and this applies particularly strongly to the contingency of unemployment which underlines the importance of close and coordinated planning in this sector. In most developing countries there is a lack of a central or coordinating body for the formulation of national social security policies and strategies through extensive social dialogue, although it is of paramount importance to establish clear priorities for social security development in every country considering the limited contributory and administrative capacity. National steering committees will therefore undertake this vital function when drawing-up national action plans for the future development of social protection in each country.

Appendix to Chapter 12 – International Experience

Appendix 12A Unemployment Insurance Schemes in Selected Asian Countries

Table 12.1 Unemployment insurance schemes in selected Asian countries

Country & date of law Coverage of the scheme	Contributions			Qualifying Conditions	Benefit Entitlement
	Employee	Employer	Government		
CHINA 1986. Local government administered social insurance scheme Employees of urban enterprises & institutions & state- owned enterprises, regardless of location.	1% gross earnings	2% of gross payroll	Support from municipal government budgets	Minimum of 1 year insurance, involuntarily unemployed, not receiving OAP, registered and regularly reporting at employment service agency and actively seeking employment Benefit may cease or be suspended for refusing suitable job offer	Local governments set rates at levels higher than local public assistance benefit but lower than the local minimum wage. Payable for a maximum of 1 year for less than 5 years coverage, 1.5 years for 5 to less than 10, and for 2 years maximum for 10 years or more
JAPAN 1975 Employment Insurance Employees under age 65. Voluntary coverage for firms with fewer than 5 regular workers in agricultural, fishing and forestry industries. Special schemes for casual workers, seamen and civil servants.	0.75% of earnings: 0.80% for agricultural, fishing, forestry & construction workers	1.05% of payroll; 1.15% for agricultural, fishing, & forestry workers and 1.25% for construction workers	25% (33.3% for daily workers) of benefit costs and special allowance and 12.5% of costs of new-born child and older workers allowances	6 months insurance in last 12 months (or 1 year of insurance in last 2 years for part-time workers) Registered for employment, capable of, and willing to work. Unemployment not due to voluntarily leaving, serious misconduct, refusal of job offer or non-attendance at suitable training course (otherwise disqualified for from 1 to 3 months)	Between 50 and 80% of claimant's average daily wage over last 6 months (higher % for lower paid) or 45 to 80% if between 60 and 64. After a 7 day waiting period benefit is payable for between 90 and 150 days according to length of coverage, age, reasons for unemployment and job prospects. Additional 30 to 210 days possible in case of unemployment due to an industry in recession, claimant is undergoing training or suffering from physical or mental illness. Minimum daily benefit is JPY 1,696 and maximum is JPY 7,935. In addition the scheme pays older worker allowance, new-born child allowance, family care leave benefit and special daily or monthly allowances.
REPULIC OF SOUTH KOREA 1993 implemented in 1995 All employees below age 65. Voluntary coverage for agriculture, forestry, fishing and hunting businesses with fewer than 5 employees and small-scale construction projects (net costs below 20m. won) and domestic	0.45 % of annual wages before tax	Between 0.7 and 1.3 % of annual payroll (depending on type of business)		At least 6 months coverage in last 18 months Must be registered for employment, capable of and available for employment. Unemployment must not be due to labour dispute, voluntary leaving, misconduct or refusal of suitable job offer	Benefit is equal to 50% of insured 's average daily earnings during the 3 months prior to unemployment and is payable after a 7 day waiting period for 90 days for those with between 6 and 12 months coverage, for 240 days with more than 10 years coverage or aged 50 or over or is disabled Minimum rate is 90% of minimum daily wage and maximum is 35,000 won.

Country & date of law Coverage of the scheme	Contributions			Qualifying Conditions	Benefit Entitlement
	Employee	Employer	Government		
employees. Exclusions: Persons newly employed after age 60, casual workers employed for less than 80 hours per month, family labour and the self-employed. Special schemes for civil servants, private school employees, military & employees of the special post office					
MONGOLIA 1994 Implemented in 1995. All employees. Self-employed may join the main scheme voluntarily but not for unemployment insurance.	0.5 %	0.5%		Has paid 24 months contributions at least and contributed continuously for last 9 months before unemployment. Is capable of available for and is actively seeking work.	For up to 5 years insurance. benefit is 45 % of average earnings over last 3 months subject to a minimum of 75% of the minimum wage and payable for maximum of 76 working days commencing on the day following the expiry of the period of severance pay provided under the Labour Law. For from 5 -10 years insurance 50% is payable, from 10 to 15 years the rate is 60%, and 70% for 15 years or more
THAILAND 1990 Implemented in 2004 All employees aged 15-60. No voluntary coverage for the unemployment insurance scheme	0.5 % of gross wages	0.5 % of monthly payroll	0.25% of monthly wages	6 months contributions in last 15 months before unemployment Registered for employment, ready and able to accept a suitable job, unemployment not due to dishonesty or a criminal offence against employer or neglecting duty for 7 consecutive days or causing serious damage to the workplace.	For involuntary unemployment, 50% is payable for up to 180 days in a period of one year; for voluntary unemployment benefit is 30% for up to 90 days during a period of one year. A 7 day waiting period applies to each claim
TURKEY 1999 Implemented in 2000 Employees aged 18 or more working under a service contract in public or private sector Exclusions: civil servants, workers in agriculture, forestry, domestic service, military service students and the self-employed	1% of monthly earnings	2% of monthly payroll	1% of monthly earnings	600 days of contributions in last 3 years before unemployment, including the last 120 days before unemployment	Minimum monthly benefit is 50% of average earnings over last 4 months. Duration is 180 days for workers with 600 days of contributions, for 240 days if 900 days paid, and for 300 days if 1,080 or more days were paid.

Source: Main source "Social Security Programs Throughout the World: Asia and the Pacific, 2004, SSA USA.

Appendix 12B – Unemployment insurance in Thailand

12B.1 Background

The Social Security Act that was promulgated in Thailand in 1990 provides for all 9 social security contingencies but, unlike other branches of the scheme, no date was given for the introduction of unemployment insurance. No particular priority was accorded to it due to good economic development and some uncertainty about the role and suitability of this type of social security. Employees in both white and blue collar jobs were thrown out of work when the Asian financial crisis occurred in 1997 and this changed the attitudes to unemployment benefits. Discussions and planning exercises took place and ILO provided technical assistance to the Social Security Office (SSO) for the design and costing of a suitable unemployment insurance scheme. However, the finalisation of the scheme and a decision on its introduction took some time as extensive social dialogue took place in the course of which changes were made in the standards of the scheme. It was finally introduced with effect from January 2004.

The main provisions of the scheme are summarised below.

12B.1.1 Coverage

The social security scheme covers all enterprises with one or more workers on a compulsory basis. The scheme does allow some voluntary coverage but this does not apply to unemployment insurance.

12B.1.2 Financing

The total contribution is 1.25 per cent of insurable earnings. This is contributed through the system of tripartite financing that is in force for other branches of the scheme. For unemployment insurance the shares of contributions are as follows:

- Employers and employees each pay 0.5 per cent of insurable earnings with a ceiling of THB 15,000 per month
- The government pays 0.25 per cent of insurable earnings on the same basis as employers and employees

12B.1.3 Entitlement

The conditions to be satisfied are:

- At least 6 contributions were paid within a period of 15 months before the commencement of unemployment,
- Registered with the employment office for further employment,
- Being able to work and being ready to take a suitable job if offered,
- No objection to job training,
- Must attend at the employment office as frequently as necessary,
- Unemployment is not caused by,
 - performing duties dishonestly,
 - intentionally committing a criminal offence against the employer,
 - intentionally causing damage to the employer,
 - seriously violating work regulations or rules or lawful order of the employer,
 - neglecting duty for 7 consecutive days without reasonable cause,
 - causing serious damage to the employer as the result of negligence, and
 - being imprisoned by a final decision except for an offence which has been committed by negligence or is a petty offence.
- Not being entitled to old-age benefits, and
- Not a voluntarily insured person under article 39 of the Act.

Provided that the above conditions are satisfied, entitlement is from the eighth day from the last day of employment and comprises:

- Employment services,
- Job training,
- For persons who were laid off, cash benefits of 50 per cent of average insurable earnings for up to 180 days in a period of one year, or
- For persons who resigned from their jobs 30 per cent of average insurable earnings for up to 90 days in one year.

The inclusion of voluntary unemployment is controversial and was introduced at a late stage after a period of negotiation amongst the stakeholders. The contention of the trade unionists was that in some instances workers

were left unpaid and found themselves with no option but to leave for other jobs after lodging complaints with the labour office. This could be due to serious financial problems, or the collapse of the enterprise, but in some instances such employers were seeking to avoid liabilities for severance pay which is payable to workers declared redundant and not those who resign from their jobs.

The final agreement was to include voluntary leaving provided that the unemployment insurance benefit is only 30 per cent of insurable earnings and is payable for a maximum of 90 days. The importance of the provisions on voluntary leaving is shown by the fact this is by far the largest category in the claims statistics in Table 12.2 below. Another method of covering such situations followed in some other schemes is by inclusion of the condition that whilst voluntary unemployment may be excluded the unemployed may be able to claim on the grounds that resignation was justified by *good cause*. This contention may be submitted to an arbitration court or labour committee for a ruling.

12B.1.4 Claims experience and procedure

Data on unemployment insurance claims to unemployment benefit over the period from July 2004 to June 2005 are given in Table 12.2.

Table 12.2 Claims Data July 2004 to June 2005

(Costs in millions of THB)

Category	July-December 2004		January - June 2005		TOTALS	
	No.	Costs	No.	Costs	No.	Costs
Lay-off	5,432	73.07	9,499	216.27	14,931	289.34
Voluntary	8,102	73.32	12,546	36.42	20,648	109.74
End of Contract	2,188	8.25	733	9.04	2,921	17.29
Totals	15,722	154.64	22,778	261.73	38,500	416.37

Source: SSO Thailand

The most notable feature is that 53.63 per cent of claims were on the basis of voluntary leaving, whilst redundancies accounted for 38.78 per cent; however, almost 70 per cent of benefits expenditures was on lay-offs due to the higher benefit entitlement for this category. Another feature was the increase in claims from 15,722 in the first 6 months to 22,788 in the second period of 6 months in 2005. This may be due to a combination of factors such as:

- Higher unemployment,
- More persons qualifying, and
- Wider dissemination of information about the scheme amongst the workforce.

12B.1.5 Procedure

The SSO administers the scheme in collaboration with the Department of Employment which operates a network of Government Employment Offices. Vocational Training Programmes are organised by the Department of Skills Development

When a worker leaves employment the employer submits a form to the local SSO office giving the date of separation and the reason for the termination of the employment. The worker should report to the Government Employment Office (GEO) to register for re-employment as the first step. If there is no immediate prospect of re-employment during the 7 days waiting period the worker completes a SSO form at the GEO to claim unemployment benefit. This information is passed to SSO so that the entitlement issues can be addressed in the interim period before payment is due at the end of the month. The GEO will first interview the claimant on his/her efforts to find work and if it certifies that the worker is eligible, SSO checks the insurance conditions, determines average earnings and proceeds to make a payment to the claimant's bank account for the number of benefit days.

This procedure is of the one-stop type to assist the unemployed, ensure that the emphasis is on re-employment and avoids pressures on SSO offices from claimants who want cash payments, which was the practice of many persons before the launching of unemployment insurance and insistence on provision of bank account numbers. The SSO is able to monitor any other benefit claims that could be made such as to sickness or maternity benefits which would conflict with the unemployment insurance claim that the person is available for and capable for work. Subsequent payments are made at monthly intervals on the basis of GEO rulings that the claimants meet all of the labour market conditions. Benefit payments cease on re-employment, completion of the maximum duration, or a finding that the claimant does not satisfy the conditions imposed at the GEO regarding willingness to take up work or training proposed by the GEO.

12B.1.6 *Financing*

Over the period from January 2004 to June 2005 the total contribution income of the unemployment insurance Fund was THB 10,753.98 million. The main expenditure was THB 416.37 million on benefits, as noted above.

12B.1.7 *Final comments*

In June 2005 the Thai Government announced some measures to conserve energy in view of the impact of the high oil prices. It is possible that some economic contraction may occur and that the role of the unemployment insurance scheme may come more sharply into focus. The initial experience may have allayed concerns about the viability of an unemployment insurance scheme but careful monitoring and evaluation will be necessary during different economic situations so that the scheme can be adapted as necessary to economic and labour market requirements.

Appendix 12C Barbados unemployment benefits scheme

12C.1 Background

Within CARICOM, Barbados, which has a population of 267,000, is the only country that has an unemployment insurance programme. This scheme is administered by the National Insurance Board (NIB) and has been in existence since July 1981. The NIB also provides pensions, and benefits for sickness, maternity and employment injury. The total contribution rate is 14.39 per cent which is distributed into the separate funds for each branch of the scheme.

The initial contribution rate for unemployment insurance was set at 2 per cent and shared equally by the employer and employee. Since then this rate has been adjusted 6 times but the 50/50 relationship between employer and employee has remain unchanged. There have also been several changes to the benefit rate and maximum duration. In 1981, benefits were 40 per cent of average insurable wages for a maximum of 13 weeks. Today, 60 per cent of average insurable earnings is payable for up to 26 weeks. The following two tables show the main changes made to benefit provisions and the contribution rate since 1981.

Table 12.3 *Major changes to benefit provisions*

Month of Change	Benefit Rate & Maximum Duration
July 1981	40% of AWIE for up to 13 weeks
April 1984	50% of AWIE for up to 13 weeks
June 1985	60% of AWIE for up to 26 weeks
October 1991	60% of AWIE for first 10 weeks + 40% of AWIE for next 16 weeks
June 1996	60% of AWIE for up to 26 weeks

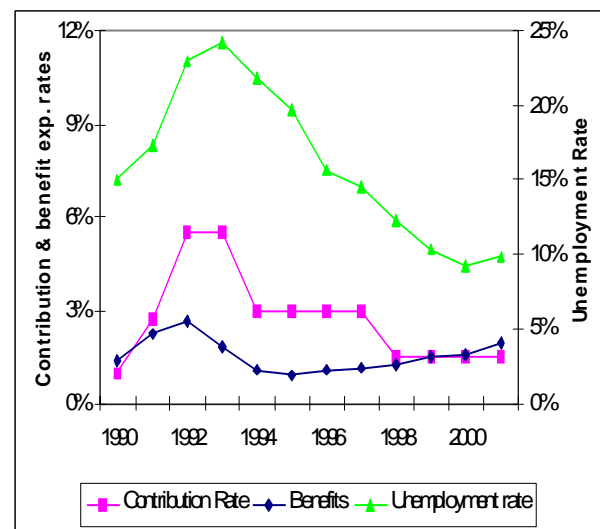
AWIE – Average Weekly Insurable Earnings

Table 12.4 *Changes to contribution rate*

Month of Change	Combined Contribution Rate
July 1981	2.0%
May 1987	1.0%
October 1991	2.75%
December 1991	5.5%
January 1994	3.0%
September 1998	1.5%

The following chart shows how the Barbados national unemployment rate (top curve on the chart) changed between 1990 and 2001, how the unemployment insurance contribution rate has been adjusted and the actual level of benefit expenditure. During a recession in the early 1990's unemployment reached almost 25 per cent. In response, the combined contribution rate (centre curve on the chart) was increased to 5.5 per cent and benefit expenditure (bottom curve on chart) approached 3 per cent of insurable wages. With benefit expenditure of less than 1.38 per cent since 1993, there have been two rate reductions and presently the unemployment insurance contribution rate stands at 1.5 per cent of insurable earnings. Since 1995 benefit expenditure has increased gradually, surpassing income in 2000 and 2001. However, large annual surpluses in prior years have resulted in the unemployment fund being very well funded, with reserves now of 3.5 times annual expenditure.

Figure 12.1 *Barbados unemployment, contribution & benefit expenditure rates, 1990 to 2001*



The Barbados experience confirms that unemployment expenditure tends to be cyclical and more volatile than the traditional short-term social security benefits. As a result, authorities there have responded on several occasions by changing the contribution rate when necessary.

Some characteristics of the Barbados unemployment insurance scheme are:

- The unemployment benefits fund is separate from the national insurance fund
- Permanent government employees and self-employed persons do not contribute and are thus not covered.
- The employer and the employee share contributions equally.
- The contribution wage ceiling is the same as for other national insurance benefits.
- To qualify, claimants must have been insured for at least 52 weeks, and
 - Have 20 weeks weekly contributions in the three consecutive quarters ending with the 2nd quarter preceding unemployment.
 - Seven weekly contributions in the 2nd quarter preceding the one in which unemployment began.
- Benefits are 60 per cent of average weekly insurable earnings.
- Benefits are payable for a maximum of 26 weeks in any continuous period of unemployment, or for an aggregate of 26 weeks in the 52 weeks preceding.
- If the entitlement to benefit is exhausted, a new unemployment benefit may not be payable until the expiration of 52 contribution weeks from the last week in which benefit was paid.
- The first 3 days of a period of unemployment are treated as a waiting period. If however, unemployment lasts at least 3 weeks, benefit is payable from the first day.

Table 12.5 Highlights of recent unemployment benefit scheme experience

Scheme Element	2001	2000	1999
Unemployment rate	10.4%	9.3%	9.9%
Contribution Rate	1.5%	1.5%	1.5%
Expenditure as a % of Ins Wages	1.94%	1.55%	1.49%
Average Duration (benefit days)	69	67	68
# Claims Approved	15,946	10,533	10,570
# Claims per thousand contributors	162	109	106

12C.2 Severance payments scheme

Whilst many countries enact legislation on entitlement to severance pay when workers are retrenched, it is sometimes difficult for enterprises that have run into difficulties to pay all entitlements. In addition, there are problems of compliance with some types of employers who try to evade such financial commitments. Barbados has established a Severance Payments Scheme that ensures that workers are paid either by their employers or by the Severance Fund on behalf of the employer. Employers pay 1 per cent of insurable earnings into the Fund. Entitlement to severance pay requires completion of 104 continuous weeks of employment with the same employer. Benefits are:

- 2.5 weeks of basic pay for each year worked up to 10 years,
- 3.0 weeks of basic pay for each year worked between 10 and 20 years, and
- 3.5 weeks of basic pay for each year worked between 20 and 33 years.

Under the scheme,

- 1 Employers pay severance pay to their employees and are entitled to a 25 per cent refund from the fund, and
- 2 If employers refuse or cannot make these payments to their employees the fund pays the employee and claims from the employer.

12C.3 Unemployment insurance in the Republic of South Korea

12C.3.1 Overview of the employment insurance system

Although the Republic of South Korea began to develop social security protection only in the 1970s it rapidly extended the scope of coverage of contingencies and persons, notably in respect of health care and old-age protection. A lower priority was given to unemployment protection due to low levels of unemployment and disagreements over the need for an unemployment insurance scheme. It was realised that active labour market policies were essential and a comprehensive system was developed over the long-term called employment insurance comprising unemployment insurance, job training and employment maintenance and promotion subsidies. This is coordinated with other elements of the safety-net system including:

- The livelihood protection programme for the poor,
- A life stabilisation fund for the unemployed whose assets fall below a specific level, and
- A public works programme for the unemployed and spouses of low-wage workers.

12C.3.2 Coverage of unemployment insurance

The unemployment insurance scheme, which was launched in 1995, initially covered enterprises with 30 or more employees and excluded important categories of workers especially part-timers and daily paid workers employed for less than 30.8 hours per week. Coverage was rapidly extended under the impact of the Asian financial crisis which severely affected the country. Unemployment reached unprecedented levels and affected sections of the labour force previously accustomed to secure employment. The unemployment insurance scheme was extended stage by stage until by October 1998 enterprises with 1 or more workers were included. Finally, from July 1999 part-time and daily paid workers employed for a month or more were brought into the scheme. This expansion programme was coordinated with the progressive extension of active labour market measures, such as subsidies for vocational training programmes, to smaller firms until they applied to those with 1 or more worker from October 1998. In addition small businesses with less than 5 workers in agriculture, hunting and fishing are allowed to join voluntarily

12C.3.3 Sources of funds

The scheme was originally financed by contributions of 0.6 per cent of the payroll shared equally by employers and workers and the total contribution for the entire system including labour market measures such as training was fixed at 1.5 per cent. From March 1998 the total contribution was increased to 3 per cent of payroll. Each element in the system has its own premium rate. The current contribution rates are 0.5 per cent for workers and between 0.9 and 1.5 per cent for employers according to the variations they pay for the training programmes related to size of enterprises.

12C.3.4 Benefits

Eligibility for benefits depends on the normal labour market conditions and that contributions have been paid for a minimum of 6 months in the 18 months prior to the unemployment. The benefit rate is 50 per cent of the worker's earnings in the month prior to the job loss. The minimum benefit is 70 per cent of the minimum wage. The duration is related to the length of insurance and to factors such as age and disabilities which provide in broad terms an indication of the difficulties of obtaining re-employment. The maximum benefit periods (in months) are as follows:

**Table 12.6 Maximum benefits period
Republic of Korea scheme**

	Length of insurance (years)			
	1 – 3 years	3 – 5 years	5 – 10 years	Over 10 years
Insured under age 30	3 months	4 months	5 months	6 months
Aged 30 to 50	4 months	5 months	6 months	7 months
Over 50 and persons with disabilities	5 months	6 months	7 months	8 months

As an incentive for persons to find jobs quickly, those job-seekers who find a job within half of the maximum duration for their age group and circumstances, receive a lump-sum payment of one-third of the remaining amount of unemployment benefit.

In addition to the cash benefits health insurance continues to be available for up to 12 months provided that the laid-off worker pays his or her share of the contribution, in which case the health insurance society concerned has to pay the employers share. Further coverage depends upon the worker paying contributions to certain subsidised health insurance societies.

12C.3.5 Issues

During one review of the scheme it was found that the average numbers of unemployed persons was about 1.4 million persons of whom only about 0.8 million persons or 56 per cent received any form of support as follows:

- 0.15 million from unemployment insurance,
- 0.30 million from public works projects, and
- 0.35 million from the Livelihood Protection Scheme for the poor.

The coordination of these programmes is therefore an essential condition for strengthening the protection provided to vulnerable groups. Priority is given to the expansion of coverage, but one of the major concerns is the extent of non-compliance especially amongst the smaller enterprises and in respect of daily paid workers. In the Korean labour market employees are classified as regular, temporary and daily employees. Temporary employees may be on fixed or indefinite terms and are used by enterprises to regulate numbers on the payroll as they can be readily dismissed and without severance pay. Daily paid workers are employed for fixed periods and automatically cease to be on the payroll. Certain types of employers tend not to declare these two types of employees for social security purposes. The main weakness is the lack of adequate rules on employer record-keeping for these workers which hamper efforts of inspectors

to detect irregularities. Welfare measures have been augmented to meet needs of the low-income persons who fail to qualify for unemployment insurance benefits.

The scheme maintains regular analyses of claims and has identified both long-term unemployment and recurrent unemployment as serious problems. The latter is concentrated amongst the non-regular workers and underlines the problem that it is precisely the most difficult to cover groups which are the most vulnerable to the risk of unemployment. Extension of coverage and strengthening of enforcement are therefore important elements in strategies for further development of unemployment insurance in the country.

Chapter 13 Unemployment Protection in Solomon Islands

13.1 Introduction

13.1 Report on the ILO national workshop on unemployment protection

13.1.1 Participation and opening session

The workshop was held in Honiara on 21 June 2005 with 44 participants representing the social partners, a number of enterprises, government departments, NGOs and other organisations interested in the review and improvement of workers' compensation and in learning about the subject of unemployment insurance.

13.1.2 Agenda and proceedings

The workshop agenda was as follows:

1. Overview of workers' compensation Insurance.
2. Strengthening of workers' compensation Insurance in the Solomon Islands.
3. Unemployment protection.

13.2.3 Unemployment protection

The structure of the presentation followed the sequence section 13.4 of this Chapter entitled *Main Concepts and Principles of unemployment insurance*. The sequence of the discussion was:

1. Main concepts and structural features.
2. Objectives of unemployment insurance schemes.
3. Designing a scheme.
4. Organisation and administration.
3. Experiences of Barbados.
4. Experiences of South Korea.
5. Conclusions.

The discussion in this chapter focuses mainly on the relatively low-cost short-term unemployment insurance schemes of interest to developing countries rather than the more complex and comprehensive schemes established in industrialised countries. The main objective of such unemployment insurance schemes is to provide financial support to insured workers who have become involuntarily unemployed, register for work and are available for, capable of and actually seeking work so that they can take time

to find decent work, if necessary with the help of the employment services and training schemes. This means that the scope does not include new entrants into the labour market, the voluntarily unemployed, the persons laid off who wish to take a break or stay at home for family reasons, and persons who are sick or going on maternity leave and are therefore not capable of work.

The main groups covered are private and public sector employees who are already contributing to the social security system. In principle, the coverage in the Solomon Islands and other Pacific Island countries would be the same as the NPF apart from any self-employed and voluntary members. However, not all of the types of workers who have insecure employment may be covered and this is an issue in many countries aiming to expand coverage as widely as possible.

Few developing countries had established the institutional framework of employment services with networks of offices equipped with labour market information and qualified staff and a system of vocational training programmes which would facilitate the introduction of unemployment insurance. This has the smallest number of schemes worldwide of any branch (68), and some developing countries had adopted the strategy of targeting the poorer categories of unemployed and under-employed workers through public works and similar projects for infrastructural development often scheduled for the off-season in rural areas.

Where the economy suffers a downturn leading to extensive lay-offs, unemployment insurance schemes may help to smooth consumption through the payment of unemployment benefits which strengthen the economy by maintaining adequate levels of consumer demand during periods of economic difficulties. This temporary maintenance of spending power may help in delaying, minimising or preventing a downward spiral of further economic decline with the inevitable further result of additional unemployment and consequential reductions in consumer demand.

As regards unemployment insurance the essential points were that:

- The prescribed rate in the social security

(Minimum Standards) Convention No.102 is 45 per cent of previous earnings and 50 per cent in the Employment Promotion and Protection Against Unemployment Convention, 1988 No. 168) and some of the newer schemes in developing countries paid these or similar amounts for periods of from 13 to 26 weeks in a period of one year or so and were financed by means of joint employer-employee contributions, usually in the range of from 1.5 to 3 per cent of insurable earnings,

- Unemployment insurance schemes may require only a recent number of paid contributions such as 6 months out of the last 12 months or both this type of condition and an overall requirement that the insured person has paid a minimum of 12 monthly contributions together with his/her employer,
- Administration of unemployment insurance is a demanding task because of the need to apply both insurance and labour market conditions requiring close coordination between the social security and employment offices,
- Whilst the social security organisation is responsible for the scheme and its finances, the employment service offices have the task of organising job search activities and certifying at regular intervals that claimants meet the conditions of being available for, capable of and actually seeking work in order for benefit payments to be made, and
- In general, the job search requirements had been intensified in a number of countries as a condition for entitlement to cash benefits.

There were therefore important pre-requisites in establishing the unemployment insurance system, and where unemployment insurance schemes are introduced prematurely, such as prior to economic expansion, progress with employment policies, and the development of properly functioning networks of employment service offices, and vocational training programmes, they function more as unemployment assistance schemes and the issue is whether the resources would be more effectively used in public works and similar projects

The paper summarises the experiences of Barbados and the Republic of South Korea as examples of unemployment insurance E schemes illustrating different approaches. Barbados with a population of 267,000 introduced unemployment

insurance in 1981 and it was noteworthy that the scheme had gradually increased benefit entitlements from the initial 40 per cent payable for up to 13 weeks to 60 per cent for a maximum of 26 weeks in any continuous period of unemployment or for an aggregate of 26 weeks in the 52 weeks preceding. In other words, the merits of starting cautiously and building-up on the basis of experience had been recognised. The volatile nature of this branch of social security is borne out by the fact the contribution rate had been revised 5 times between 1981 and 1998 in relation to changing demands for benefits. The scheme had adjusted and currently charged a total of 1.5 per cent of earnings which was shared equally by employers and workers.

Another example is provided by the Republic of South Korea which had launched a more elaborate and ambitious Employment Insurance Scheme (EIS) in 1995. The structure includes an employment stabilising programme and a job skill development programme in addition to the system of cash benefits. The EIS scheme aims to promote employment through subsidies and active labour market policies maintain living standards of job-seekers through cash benefits and provide skills training where needed to increase prospects of re-employment. Employees pay 0.5 per cent of insurable earnings and employers from 0.9 to 1.5 per cent according to their contributions for vocational training. The benefit rate is 50 per cent of insurable earnings and duration is related to factors considered as indicating the likelihood of re-employment. The maximum benefit periods in months are as follows:

**Table 13.1 Republic of Korea
unemployment insurance Scheme –
maximum benefits period**

	Length of insurance (years)			
	1 - 3	3 - 5	5 - 10	Over 10
Insured under age 30 years	3 months	4 months	5 months	6 months
Aged 30 to 50 years	4 months	5 months	6 months	7 months
Over 50 years & persons with disabilities	5 months	6 months	7 months	8 months

The Korean scheme has been rapidly expanded but even so it is also coordinated with assistance schemes and public works projects to ensure that all types of unemployed persons are protected.

13.2.4 Discussion of Issues.

The participants discussed the following issues in group sessions.

1. What priority should a short-term unemployment insurance scheme have compared with other needs for social security development, such as workmen's compensation and health insurance ?
2. Pooling risks in a social insurance fund is a new concept in the Solomon Islands since workers are used to individual accounts. Would it be acceptable if some persons drew heavily from the unemployment insurance Fund and others never claimed? In other words, is there a strong sense of solidarity amongst insured employees?
3. In the Solomon Islands, what main preparatory steps would be needed for the introduction of unemployment insurance?
4. Would it be possible for an unemployment insurance scheme to detect claimants who have undeclared earnings whilst drawing benefit?
5. On benefit entitlement,
 - (a) Should the rate remain the same throughout the period of the claim or decrease after 3 months for example, 50 per cent for months 1 to 3 and 40 per cent for the next 3 months?
 - (b) Should claimants be encouraged to find jobs quickly? For example, if he/she is re-employed after 2 months or less, the fund could pay half month's benefit or a fixed amount as a bonus. Is this a good idea or not?

The response of the groups to the new topic was encouraging as they again engaged in extensive discussions and were ready to question and debate points made by other groups. This accelerated the learning process in this new field.

There were some comments in favour of introducing unemployment insurance as long overdue and urgently needed, especially by workers in insecure employment, with references to logging as an example of a particularly difficult sector when foreign companies set up enterprises that closed down whenever business conditions changed for the worse. Solidarity was

recognized as essential for the working of this type of social security protection. As regards the problem of detecting persons abusing the scheme, some participants stated that local knowledge of each individual's activities and careful checking of reports of new enrolments by employers could be quite effective controls. Some groups referred to a wide range of preparations that would be needed including research into types and duration of unemployment in various sectors and that some public inputs through seminars would contribute to the planning of an appropriate scheme.

Discussion on these questions helped to increase the understanding of the concepts and of the emphasis on re-employment with cash benefits needed to support the process for a limited period only. It was evident that the workshop served the purpose of providing initial information and documentation on a subject that will call for further study in future.

13.2.5 Concluding remarks on unemployment protection

(i) Policies and strategies on employment generation

The Solomon Islands faces considerable challenges in recovering from the grave social and economic problems that resulted from the period of ethnic unrest and instability that occurred in 1998. This was followed by further unrest that required the intervention and support of neighbouring countries in mid-2003 in the form of the Regional Assistance Mission to the Solomon Islands (RAMSI). Prior to the period of instability the economy was unable to generate sufficient new jobs for the annual influx of new labour market entrants and this remains the major problem with the extent of youth unemployment a particular concern. Some initial signs of economic recovery are encouraging for fulfilment of long-term goals expressed in the National Economic Recovery and Development Plan (NERDP) for the period 2003 -2005.

Against this exceptionally difficult background, the NAPDW addresses the decent work challenges that confront the country in the key area of employment. Lack of data is one of the consequences of the disruption affecting public administration in respect of employment surveys which were suspended several years ago. The available data pinpoints the extent of youth

unemployment and underemployment throughout the informal subsistence economy whilst there is some evidence of a recovery in progress in the formal sector, the main beneficiary of contributory social security schemes, according to the figures provided by the SINPF. For example:

- 1 Compared with the low point of 2002 when contribution receipts totalled only SBD 22,360,000 the figure for 2004 was SBD 49,984,000, and
- 2 Withdrawals on the grounds of redundancy fell to 709 in 2004 compared with the peak of 4,024 in 2001.

Nevertheless, the basic problem of inadequate employment generation overshadows the plans for social and economic recovery. The NAPDW points out that in the pre-crisis period only 1,200 new jobs were created each year of which 500 were in the formal sector whilst at least 7,500 new job-seekers entered the labour market annually. The challenges and strategic responses identified in NAPDW include:

- 1 Development of policies and strategies for the promotion and financing of micro and small business,
- 2 Design and implementation of a labour market information database and occupation classification system,
- 3 Support for develop a national technical and vocational training policy for employment creation and for the establishment of National Training Council to organise training programmes in collaboration with educational institutions such as the Solomon Islands College of Higher Education (SICHE),
- 4 Continuous support for the rehabilitation of productive sector through on-going Industries Rehabilitation and Retention Task Force Project (IRRTF). Formulation of sectoral industrial and employment policies,
- 5 Continuous effort on employment creation and infrastructure reparation through on-going Community Infrastructure Rehabilitation Project (CIRP),
- 6 Support for formulation of policy framework and strategy for youth employment. And technical assistance to implement youth employment skills action programmes,
- 7 Support for develop and implement an integrated job creation action programme,

including assessment of job matching, targeted training, and support of financial intermediaries,

- 8 Conduct of a high level tripartite Employment Forum focusing on the investment environment and employable skills policy development, and
- 9 Development and implementation of a policy framework and action programmes on livelihood and income generating activities for people in the informal subsistence sector, more and better employment for women based on cultural values, and skills development for disabled persons.

This is a comprehensive and long-term programme that holds out prospects of major improvements over time subject to satisfactory progress with NERDP.

(ii) *Conditions for the introduction of limited unemployment insurance protection*

The strong focus on developing the economy and creating employment is consistent with the approach advocated in the Resolution and Conclusions concerning social security which were adopted at the International Labour Conference in 2001 *For persons of working age, the best way to provide a secure income is through decent work. Where it is not deemed feasible to establish a system of unemployment benefits, efforts should be made to provide employment in labour-intensive public works and other projects as is successfully done in a number of developing countries.*

In other words, unemployment protection can be provided in different ways. One of the main reasons for the relatively low number of unemployment insurance schemes is that the requirements for establishing an effective unemployment insurance scheme are difficult to meet in the majority of lower-income developing countries and that a more feasible strategy may be to provide employment through labour-intensive public works and similar projects that can be targeted at lower-income groups in urban and rural areas.

The Solomon Islands faces acute difficulties in successfully implementing the recovery programmes and the NAPDW priority areas for action. When expansion of the economy and development of the private sector gain more

momentum and economic indicators show consistent improvement, it may increase the feasibility of investing scarce public funds in employment services and labour market information as well as increases in vocational training programmes to counter skills shortages that can slow progress in economic development and employment generation. Such a range of developments could provide a basis for considering the role that a suitable modest unemployment insurance scheme could play in adapting labour supply to demand and maintaining progress in implementing decent work priorities

The low number of even short-term unemployment insurance schemes in developing countries is not surprising considering the requirements for the introduction of unemployment insurance. For the introduction of a modest unemployment insurance scheme, essential conditions that when met increase the feasibility of a scheme, if this becomes a future priority in coordinated planning of social security development, include:

- 1 A sound or reasonably sound economic situation generating consistently higher demands for labour and improving affordability, as indicated by improved per capita incomes amongst the insured population,
- 2 Wide support for the investment of public funds in organizing the network of employment centres and training schemes and establishing the contributory unemployment insurance scheme, especially the essential sense of solidarity amongst the insured employees for a system of pooling risks in contrast to defined contribution schemes with which they are familiar since some may expect to draw heavily on the scheme and others may envisage never claiming,
- 3 A well-functioning national network of employment service centres operating with access to suitable vocational training courses, and a system of active labour market policies that can be brought into force when necessary; and
- 4 An efficient social security administration with consistently low contribution arrears and the capacities to collaborate with employment centres in the implementation of unemployment insurance, the most difficult to administer efficiently of all

social insurance schemes.

The ILO trusts that the supply of information in this report meets requirements for the subject of unemployment protection until the overview report on this subject can be provided to the national steering committee and other stakeholders in the field of social protection.

13.4 Main Concepts and Principles of unemployment insurance

13.4.1 Concepts and structural features

The purpose of this section is to elucidate the main concepts and principles of unemployment insurance from the point of view of Pacific Island developing countries.

There are approximately 68 social security schemes of various types for the contingency of unemployment amongst 175 countries with one or more social security programmes. This is the lowest number of schemes per social insurance branch and contrasts with over 170 countries with old-age protection schemes and about 175 operating employment injury or workers' compensation schemes. This underlines the fact that the unemployment insurance schemes are predominantly in industrialised countries and some transition economies and are only slowly being introduced in middle-income developing countries.

One of the main means of combating unemployment and under-employment in developing countries is through the organisation of public works projects for infrastructural development such as feeder roads and irrigation systems in rural areas. Such strategies have helped to alleviate poverty and hardship amongst low-skilled workers especially on a seasonal basis in rural areas. The introduction of unemployment insurance schemes would target different categories of workers in the formal sector who are able to build up sufficient contribution records to qualify for cash benefits and should have no impact on continuation of the public works projects.

The basic concept in the Social Security (Minimum Standards) Convention (No. 102 of 1952) is of suspension of earnings due to inability to obtain suitable employment in the case of a person who is available for and capable of work. A further requirement that the applicant should be *actually seeking work* is contained in

the Employment Promotion and Protection Against Unemployment Convention (No.168 of 1988). The nature of unemployment insurance schemes is underlined by these conditions and the requirement that sufficient numbers of contributions have been paid to qualify for benefits.

Clearly, the target group consists of persons:

- Recently in insurable employment and who have paid sufficient contributions to qualify for unemployment insurance,
- Who have been retrenched,
- Are ready and able to return to work, and
- Are actually seeking work.

The scope does not include new entrants into the labour market, the voluntarily unemployed, persons laid off who wish to take a break or stay at home for family reasons, and persons who are sick or going on maternity leave and are therefore not capable of work.

A fully-fledged scheme is part of a proactive system for returning laid-off workers to employment through job matching, training schemes and forms of assistance to workers to become self-sufficient by means of self-employment or other means. Active labour market measures may be employed in the well-established schemes found in industrialised countries, such as, for example:

- Support for further vocational training,
- Job creation measures to provide temporary jobs for long term unemployed persons,
- Wage subsidies using resources otherwise payable as benefit in order to provide temporary employment,
- Integration subsidies, the purpose of which is to obtain permanent employment for disadvantaged workers by compensating employers for lower performance,
- Recruitment subsidies for new businesses to employ a specific number of unemployed persons,
- Subsidies for recruiting long-term unemployed persons, and
- Start-up grants for persons entitled to benefit but wishing to start businesses may be entitled to a lump sum of 6 months benefit.

Unemployment insurance is widely considered to be the most difficult to administer of all social insurance schemes because both insurance and labour market conditions have to be applied against the background that informal sectors of employment provide scope for some claimants to obtain earnings without declaring them when drawing unemployment benefits.

The income protection afforded in the form of unemployment benefit to qualified workers allows them some time to search for similar jobs, and, if necessary, to upgrade skills through training courses, in order to maintain their incomes and membership of social insurance schemes, instead of opting for the first job available in the informal sector. However, a careful balance has to be struck between providing adequate subsistence levels of benefit and avoiding reductions in incentives to return to work as soon as suitable jobs are available. The rate stipulated in Convention No.102 is 45 per cent of average earnings for a man with a wife and 2 children, whilst Convention No.168 prescribes 50 per cent for the beneficiary alone.

Until recent years few developing countries were interested in unemployment insurance, which was largely due to misunderstandings about its role and the possibility of establishing limited low cost schemes. However, the Asian regional financial crisis on 1997 brought about a general realisation amongst countries in the region that unemployment insurance schemes could have been functioning in a few of the affected countries. Clearly, participation in labour markets exposes all types of workers to the risk of unemployment; the more so with the impacts of globalisation, and in many countries the existing mechanisms for absorbing retrenched workers and the social protection mechanisms, such as severance pay, are inadequate.

In South and East Asia, excluding the fully industrialised countries, only the People's Republic of China, Mongolia, the Republic of South Korea and Thailand have introduced unemployment insurance schemes. In the English-speaking Caribbean, where countries have similar population levels to Pacific Island countries, Barbados introduced an unemployment insurance scheme in 1981 which has been adapted to changing economic conditions in that country.

13.4.2 Objectives of unemployment insurance schemes

While almost all industrialised countries have some form of unemployment insurance that provides vocational guidance, access to job vacancies, skills training and cash benefits on a short or long-term basis, schemes in developing countries tend to provide partial income replacement to eligible covered workers for short periods following involuntary unemployment. Like other contributory social security benefits, unemployment benefits are paid as a matter of right with no demonstration of need required. There are also several secondary benefits to the general economy of having an unemployment benefits scheme in place.

Unemployment insurance schemes have several objectives. The primary objectives involve assisting individual workers during periods of involuntary unemployment while the secondary objectives stress the promotion of economic efficiency and stability.

Specific objectives of unemployment insurance schemes are:

- Provide cash payments during involuntary unemployment to qualified persons,
- Maintain to a substantial degree the unemployed worker's standard of living,
- Provide time to find employment consistent with the workers' skills and experience, and
- Provide extensive employment services to assist unemployed workers find suitable jobs.

Other objectives are:

- Smoothing consumption through unemployment benefits strengthens the economy by maintaining adequate levels of consumer demand during periods of economic difficulties,
- Promote better utilisation of labour by encouraging unemployed workers to find appropriate jobs and, where necessary, helping them to improve their job skills, and
- Help employers maintain a skilled work force as skilled workers are not forced to seek other jobs, and thus are free to return when they are called back.

The introduction of an unemployment insurance scheme may have an effect on aggregate disposable income, consumption and savings. The payment of benefits in areas of high unemployment could help to stabilise consumer demand, and prevent or limit further economic decline. That was the view when the Asian financial crisis occurred causing widespread unemployment, as the effects were worsened by the lack of schemes, and the inability of bankrupt enterprises to meet obligations for severance pay. Benefit entitlement might deter some workers from seeking rapid reintegration into the labour market as it is intended to provide a breathing space to find suitable jobs. But given a rather short duration and limited level of benefits, the effect on the overall cost of the scheme and to the economy as a whole should be negligible. There are only marginal effects to be expected on average labour cost and on consumer price levels.

On the other hand, there are economic costs of not having any unemployment benefit system. They result from:

- Passive or active resistance by workers to structural change, based on the fear that some may lose their jobs,
- Unwillingness of the workforce to cooperate in the introduction of new technology, for similar reasons,
- Political tensions and social unrest when large numbers of workers have to be laid off,
- The tendency to claim other social security benefits (invalidity benefits, cash sickness benefits) when the contingency of unemployment is not covered, and
- The temptation to establish other more costly and less effective schemes to provide protection in the event of job loss (employment assistance programs).

Relatively high levels of unemployment should not necessarily prevent the introduction of a carefully-designed unemployment insurance scheme where the administration is confident it can organise and operate an effective scheme and prevent abuse. An unemployment insurance scheme with wide coverage has clear economic advantages in stabilizing the economy on a short-term basis during periods of recession and in promoting a better utilization of labour. It is possible to design unemployment insurance schemes, at least initially, to provide limited

income support and minimise the level of expenditures with the intention of moving towards more generous provisions as the experience develops and the capacities of the administration improve.

13.5 Some main design considerations

As a short-term benefit the following guidelines may apply to the scheme design.

13.5.1 Coverage

It can be expected that policy decisions to introduce unemployment insurance follow the successful operation of a social insurance scheme for other branches such as old-age, employment injury or social health insurance since these have had a higher priority in many countries. When planning unemployment insurance therefore the process would be facilitated by the fact that coverage of employees would be identical and the scheme could utilise the same contribution collection, recording and enforcement systems with the minimum costs. However, any self-employed and voluntary contributors would be ineligible since the contingency of involuntary unemployment does not apply to these groups. The main groups covered are private sector and public corporation employees who are already contributing to the social security system. The civil service usually has its own social security system. In principle, the coverage in Pacific Island countries would be the same as the NPF apart from the self-employed and voluntary members.

13.5.2 Contribution Conditions

As a short-term benefit, unemployment insurance requires a period of recent contributions to prove entitlement as an employed person. Schemes may require only a recent number of paid contributions such as 6 months out of the last 12 months or both this type of condition and an overall requirement that the insured person has paid a minimum of 12 monthly contributions together with his/her employer. This is the means by which unemployment insurance is targeted at regular workers who are subject to frictional unemployment.

13.5.3 Benefit level

The decision of the percentage of average earnings to be paid constitutes a compromise between providing an adequate level for the

maintenance of the insured persons and their dependants and ensuring that there are sufficient incentives for beneficiaries to return to paid employment rather than remain drawing benefits. This is the rationale for the rates of 45 per cent for a man and his wife and 2 children and 50 per cent for the beneficiary alone prescribed in the ILO Conventions No.102 and 168 respectively. The rate of 50 per cent has been adopted in a number of schemes as an appropriate balance between the two requirements outlined above.

Two other issues should be considered:

- Should benefit remain at the same percentage throughout the duration or should it be lowered after an initial period to encourage claimants to return to work as soon as possible? If this is adopted the effects should be evaluated in order to assess whether average benefit duration is reduced and whether any claimants suffered financial hardship as a result of the reduced benefit level.
- With a 50 per cent rate low wage earners are likely to experience coping difficulties and a minimum benefit rate should be considered; this should be linked to average earnings of social security contributors so that it can be increased from time to time. This feature would be adopted where the scheme wished to apply a 50 per cent rate generally but recognised that the lower paid may need a reasonable period of time to find “decent work” and possibly obtain a better paying job. However, this has to be worked out very carefully as another objective is to avoid the *welfare trap* where the unemployed workers are better off receiving benefits than they would be taking low-paid jobs when non-payment of contributions and the reduction in expenses for going to work are taken into account.

In accordance with the concept of limited support the duration of benefit may be in the range from 3 to 6 months in a period of one year. A period of up to 7 waiting days can be included before benefit is paid on the grounds that hardship should not be caused by a few days without income, but schemes may decide to pay such days later if the period of benefit exceeds 14 days or so. This means that a worker could be re-employed in a day or two and that such short duration claims can be avoided on the grounds that there is no hardship involved. On the other

hand if the unemployed person remained on the register for 20 days he/she would be paid for the full period. Where periods of benefit are separated by gaps exceeding 13 weeks that may be counted as separate, otherwise they count as one period of benefit for the application of the waiting days rules.

However, issues arise regarding severance pay as employers may contend that there is duplication with unemployment insurance and the two benefits should be coordinated. This may be resisted on the grounds that they are different in the sense that severance pay is a reward or payment for long service and that retirees and employees may leave receive severance pay when leaving a company without necessarily claiming unemployment insurance and that this benefit should continue unabated when unemployment insurance is introduced.

As regards relevant ILO standards, Convention No.168 of 1988 on Employment Promotion and Protection against Unemployment provides for the coordination of severance pay and unemployment insurance as follows:

Where protected persons have received directly from their employer or from any other source under national laws and regulations or collective agreements, severance pay, the principal purpose of which is to contribute towards compensating them for loss of earnings suffered in the event of full unemployment:

- *The unemployment benefit to which the persons concerned would be entitled may be suspended for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered; or*
- *The severance pay may be reduced by an amount corresponding to the value converted into a lump sum of the unemployment benefit to which the persons concerned are entitled for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered, as each Member may decide.*

This would mean that an employee who receives 3 months severance pay could have the following adjustments in unemployment benefit:

- A delay of 3 months in entitlement to benefit or a reduction of 3 months in the duration, and
- As above but on a partial basis such as a delay or reduction of 2 months in respect of the 3 months severance pay.

Very little information is available or published on the adjustments made, if any, in some countries in the entitlements under these two schemes. It appears that frequently severance pay and unemployment insurance are provided as separate benefits. However, in the Republic of South Korea an adjustment is made to the unemployment benefit in respect of large severance payments. Entitlement of KRW 100 million or more results in the postponement of unemployment benefits for 3 months. If a country decides to reduce severance pay entitlements of unemployment insurance claimants this change should not affect acquired rights or rights in the course of acquisition and therefore would only gradually have any financial effects.

13.5.4 Financing

The costing of an unemployment insurance scheme depends on many variables some of which are relatively stable such as labour supply whilst others are more volatile and cyclical in nature, and some may be affected by government actions or policy fluctuations in the economic field. Analysis of unemployment insurance expenditures in various countries demonstrates the more volatile nature of this branch than other short-term benefits such as maternity or sickness benefits. Barbados has adjusted the unemployment insurance contribution rates at various times in relation to higher and lower demand and evidently financing this branch requires the maintenance of adequate contingency reserves and careful monitoring of expenditures in order to adjust as necessary in order maintain the solvency of the unemployment insurance fund. In general, this type of unemployment insurance scheme may require contributions of between 1 and 3 per cent of insurable earnings (however, Thailand introduced its unemployment insurance scheme in January 2004 with a contribution rate of 1.25 per cent).

Whilst ILO Conventions do not stipulate the extent to which social insurance contributions are shared between employers and employees, it is provided that the cost of benefits and administration is to be borne collectively, in such

a way that hardship to persons of small means is avoided and that employees' contributions should not exceed 50 per cent of the total after the exclusion of family benefit and, normally, employment injury benefit. There is no uniform pattern as there are examples of equal sharing of the unemployment insurance contributions and of employers paying a larger share.

13.6 Organisation and administration of unemployment insurance schemes

Administration of unemployment insurance is described as challenging to administer, in view of the need to prevent the simultaneous receipt of unemployment benefit and earnings from clandestine work, and also to coordinate the social security and employment service functions. Countries considering unemployment insurance pay close attention to their capacities to organise and administer schemes that require close working arrangements between the social insurance institution and a comprehensive network of employment offices with information systems on job vacancies throughout the country.

Benefit claims must be carefully checked and efforts of jobseekers to find employment closely monitored, necessitating a well staffed and well organised professional employment service. The main administrative tasks involved in running an unemployment insurance scheme are:

- Registering workers and employers,
- Collecting contributions,
- Recording contributions and insured earnings,
- Registering benefit claimants as unemployed and receiving their benefit claims,
- Checking that claimants are involuntarily unemployed, available for work and actually seeking employment; monitoring that this continues to be the case as long as benefit is payable; offering suitable jobs and training and applying sanctions if necessary where claimants refuse suitable jobs or training opportunities, and
- Processing benefit claims, checking fulfilment of contribution conditions, calculating and paying benefit.

The first three tasks are unlikely to involve much additional work for a social security institution which is already administering other branches of

social insurance, provided that the coverage of the unemployment insurance scheme and the definition of insurable earnings are identical to that of the existing schemes, as there are already efficient contribution collections and claims processing systems. The introduction of unemployment insurance will lead to an increase in the rates of contribution, but will not mean any change in the number of contribution payments. Revenue destined for the unemployment insurance scheme has to be accounted for separately, but this is a straightforward matter of allocating the relevant percentages of total contribution revenue to the accounts for the various schemes.

The social security institution is also in the position to check if the claimant for unemployment benefits is also claiming sickness or maternity benefits for the same periods. The verification of unemployment and continued eligibility to a benefit, however, calls for combined efforts of the social security institution and the separate independent employment services. A key decision is where claims are to be lodged at the social security office or the employment office? Where possible registration for work should be combined with making a claim as the emphasis is on job-seeking and a one-stop system is helpful to the unemployed persons.

While social security inspectors may play a limited role, a separate employment service should be responsible for verifying the eligibility requirements related to the capacity and availability for work, as well as assist in the search for suitable re-employment. These include checking that unemployment was in fact involuntary, and that unemployment continues with the claimant being available for work and seeking employment, as well as willing to accept what the employment service considers is a suitable job. Together with the typical social security functions, these make the administration of an unemployment benefit more complex and difficult than the other regular tasks performed for other social security benefits.

Registering benefit claimants as unemployed involves extra work. In all countries, it is found that unemployed workers who are not able to obtain cash benefits often do not take the trouble to register as unemployed. Non-registration tends to be highest in countries where the employment service is not thought to provide very effective assistance to jobseekers in finding

new employment, and where employment service offices are not easily accessible.

Receiving benefit claims will also involve extra work, especially as most unemployed workers will be claiming benefits for the first time. Even with well-designed claim forms, many claimants are likely to require some staff assistance in completing them.

Checking that claimants are involuntarily unemployed, available for work and actually seeking employment is undoubtedly the most complex and demanding aspect of administering an unemployment insurance scheme. A certain number of workers may deliberately set out to defraud the scheme by claiming benefits and at the same time receiving earnings from work. Some others may, without any dishonest intent, simply fail to make much effort to find employment. Even if these form a small percentage of cases, they are not easily monitored so long as they are receiving benefits. When interviewing claimants, staff will inquire how they lost their job, try to find other suitable jobs for them, and inquire about the steps the workers themselves have taken and are taking to find other employment. Another closely related task has to be performed by social security inspectors, whose duties must include surprise visits to workplaces to check that all workers are duly insured and that none is claiming unemployment benefit at the same time as working.

The concept of short-term unemployment leading to speedy re-employment has been strengthened in many countries in recent years. Some of the main characteristics of this approach are:

- Use of the term job search or similar phrases,
- Conclusion of formal agreements between the claimants and the employment service on how the job search will be conducted,
- Appointment of personal advisors to each claimant with whom the job search is organised and assessed at regular intervals,
- Use of incentives such as training vouchers and training courses when applicable, and
- Use of sanctions in the form of benefit suspensions against claimants who refuse suitable jobs or decline suitable training courses.

Suitable employment is defined in Convention No. 168 to take into account age of the worker, length of service in last occupation, length of unemployment, the labour market situation, personal and family situation and whether a new job is vacant due to an on-going labour dispute. The concept of suitable work and suitable training is central to this aspect of the administration of unemployment insurance and needs to be backed up by labour courts or similar bodies as a number of disputes arise between claimants and the employment service and should be resolved by independent bodies.

Processing benefit claims will require ready access to the individual contribution records of the workers concerned and information exchanges between the social security institution and the employment services. Information technology allows this work to be performed quickly and efficiently, which is both in the interests of the unemployed worker and of the social security institution. However, this presupposes that the database containing the individual records includes all the information required to check that the qualifying period has been completed and to calculate the benefit that is due:

- Information may be required for unemployment benefit that was not previously required for administering other benefits provided by the social security scheme, so any such missing data would have to be collected and entered for all insured workers, and
- Checking the fulfilment of contribution conditions and calculating benefits require data on recent earnings and unemployment insurance contributions paid. In view of the time lags before contributions reach the social security office, the contribution and average earnings test periods should end at least 2 months before the month in which unemployment commenced.

13.6.1 Co-ordination between the social security institution and the employment services

Since some tasks are clearly the responsibility of the social security institution, and others can be performed only by the employment service, there is an obvious need for close co-ordination between these two agencies. Ideally, before the employment service embarks on the time-

consuming task of checking that claimants are involuntarily unemployed, available for work and actually seeking employment, it is advisable to check whether or not the claimant in fact fulfils the contribution conditions for receiving unemployment benefit. This would be feasible only if individual staff members in the employment service could consult the social security institution's database or the social security body gives a decision in principle on whether or not the insurance conditions are satisfied.

13.6.2 Other functions

A most important additional role for the agency certifying that claimants are eligible to an unemployment benefit is the matching of vacant positions with suitably skilled workers. This service could assist employers in finding the persons with the right skills and in reducing the time for which employees with special skills may be without work. While the principal focus of an unemployment benefits scheme is to pay benefits, the scheme may also be used as part of an overall policy directed at promoting employment or facilitating training or retraining. Close coordination between the employment services, the authority responsible for skills development training and the social security institution will be required to ensure that arrangements for training and re-training work effectively.

13.6.3 Concluding remarks.

The number of unemployment insurance schemes is gradually expanding world-wide as more countries recognise the constructive role unemployment insurance schemes can play in support of employment policies if well-designed, adapted to labour market requirements, and effectively implemented. However, there are different types of schemes varying in their scope and objectives. The type of unemployment insurance scheme likely to interest Pacific Island countries that are considering the needs of the unemployed in the process of establishing priorities for future action, is designed for frictional unemployment and a limited role of providing short-term financial support whilst, with the aid of the employment services, the unemployed seek decent work. The costs mainly depend on the benefit structure and may be in the range of 1.5 to 3 per cent of insurable earnings with some sharing between employers and employees, as agreed through social dialogue.

The benefit rates are set at rates considered as adequate for the short-term whilst providing incentives for resumption of employment. In practice, benefit is usually around 50 per cent of recent average earnings which is payable for up to 6 months or so in a period of 12 months. This approach could establish the scheme and allow consideration at later stages according to experience of enhancement of the benefits and or their duration and expansion of coverage. However, because of the volatile nature of unemployment and the difficulty of predicting demands for benefits, it is advisable to have adequate financial reserves and legislation allowing changes by regulations in key provisions on contribution and benefit rates and duration of entitlement as a minimum.

Unemployment insurance schemes rely on the efficiency of the employment services, as the main objective is to provide time for the unemployed person to seek suitable work rather than be forced to take the first opening in the informal sector. The existence of unemployment insurance schemes requiring claimants to register for employment provides both an opportunity and challenge to the employment services provided that sufficient resources can be provided for upgrading of their capacities. In addition, the system requires an appropriate range of training courses that are geared to labour market requirements and adapted as these change so that they may be provided to increase the chances of re-employment. The unemployment insurance fund would pay for each claimant sent on such courses but would have no responsibility for the financing of such training schemes. In some countries training levies are paid by enterprises for this purpose.

It is well understood that social protection policies must be complementarily developed with labour and employment policies and that this applies with particular force to the contingency of unemployment. The point to stress strongly is that unemployment insurance should be part of a system geared up to returning the unemployed persons to suitable employment as soon as possible. It is also clear that unemployment insurance alone cannot meet the needs of all of the unemployed and that complementary social protection programmes should be in force and coordinated with an unemployment insurance scheme. The unemployment insurance scheme provides earnings-related benefits, and usually continued entitlement to health insurance, where a social health insurance scheme is in force, for

limited periods during which job search, vocational guidance and, if necessary, re-training is organised by employment service centres. Therefore, unemployment insurance should be introduced only when essential conditions are met, including:

- A sound or reasonably sound economic situation facilitating labour absorption and affordability, as indicated by improved per capita incomes amongst the insured population,
- Wide support for the investment of public funds in organizing the network of employment centres and training schemes and establishing the contributory unemployment insurance scheme, especially the essential sense of solidarity amongst the insured employees for a system of pooling risks, in contrast to defined contribution schemes with which they are familiar, since some may expect to draw heavily on the scheme and others may envisage never claiming,
- A well-functioning national network of employment service centres operating with access to suitable vocational training courses, and a system of active labour market policies that can be brought into force when necessary; and
- An efficient social insurance administration with consistently low contribution arrears, and the capacities to collaborate with employment centres in the implementation of unemployment insurance.

Countries considering suitable strategies to assist the unemployed may take note of the following statement contained in the conclusions

concerning social security adopted at the International Labour Conference in 2001:

For persons of working age, the best way to provide a secure income is through decent work. The provision of cash benefits to the unemployed should therefore be closely coordinated with training and re-training and other assistance they may require in order to find employment. Unemployment benefits should be designed so that they do not create dependency or barriers to employment. Measures to make work more financially attractive than being in receipt of social security have been found effective. However, benefits must be adequate. Where it is not deemed feasible to establish a system of unemployment benefits, efforts should be made to provide employment in labour-intensive public works and other projects as is successfully done in a number of developing countries

It will be evident that where unemployment insurance is introduced prematurely, before the essential pre-conditions are met, the scheme will function more as an unemployment assistance scheme, providing cash benefits with little or no prospects of re-employment, but through the elaborate structure of a contributory social insurance scheme. Possibly a similar or greater impact could be achieved through other measures appropriate to the basic social protection tier, such as targeted social assistance and public works projects. An advantage of these types of programmes over unemployment insurance, which takes time to build-up benefit rights, is that they can be targeted and organised relatively quickly, provided resources are available and some preliminary planning has been conducted.

Chapter 14 Social Assistance: Principles

14.1 Introduction

This chapter provides an overview on Social assistance patterns and options as part of the wider ILO technical co-operation project *Subregional Initiative on social Security in Pacific island Countries*. It provides a background for considering the possibility of using social assistance approaches for addressing some of the poverty and social problems which have emerged in these Pacific Island countries.

Each of the five countries are developing societies in which at present a minority of the labour force is employed in the formal economy. The majority of the labour force is involved in the informal economy, which consists of varying degrees of self employment in the money economy, and subsistence production in the form of farming, fishing and gathering for household use. Some households may also obtain some cash from migrant remittances or land lease rents, though this incidence varies widely between the 5 countries.

Table 14.1 Country populations

Country	Population
Fiji	881,000
Kiribati	101,000
Samoa	178,000
Solomon Islands	523,000
Vanuatu	203,000

Source World Factbook Website

In varying degrees each of the countries concerned has faced new social problems as the impacts of modernisation and globalisation have affected traditional societies. Only some of these contingences are covered by any form of formal sector social security, and then only for parts of the population. In some cases traditional forms of resource sharing and reciprocity have further developed to meet these new needs. In other cases unmet needs have emerged, or traditional support mechanisms have eroded. It is this second set of situations for which social assistance approaches may be appropriate, since contributory social insurance is difficult to organise for the informal cash economy, and unaffordable for low income households and subsistence producers.

Table 14.2 Selected human development indicators comparisons

Country	Adult Literacy	Life Expectancy	Human Development Index
Fiji	93.7	69.2	0.758
Kiribati	n.a.	61.3.	n.a.
Samoa	99.7	70.4	0.769
Solomon Islands	76.6	72.4	0.624
Vanuatu	53.0	62.1	0.570

Sources World Factbook Website and UNDP Report 2004.

The specific situation in the five countries is extremely different. Hence any overview of social assistance options will include many which are unrealistic for particular countries in the light of their social and economic situation, values, and fiscal and administrative possibilities. Specific options which are relevant to the actual situation of each of the five countries will be the focus of the second part of the social assistance study.

It should also be noted that while the 5 countries project focuses on social security, the analysis used in this report is based on the wider concept of social protection. This wider concept is more relevant to the situation of Pacific Island countries, where a large part of the population is involved in the informal economy, including a substantial subsistence element not based on cash transactions, and traditional forms of social protection have been based on resource sharing linked to kinship, local community, and systems of reciprocity.

14.2 Social protection in traditional societies

The current ILO and other definitions of social protection still focus mainly on formal sector schemes, with the variety of social protection mechanisms which operate in many traditional societies covered only by the term *informal schemes*.

In the Pacific these informal or traditional schemes are of crucial importance and in most of the 5 countries included in the study are currently more important for the majority of the population than existing formal sector social protection arrangements.

A fuller description of the traditional systems operating in the five countries is given in the companion project report *Traditional Social Protection Systems in the Pacific – culture, customs and safety nets* (ILO Suva 2005). This sets out and describes some of the key traditional arrangements in each of the five countries studied.

These include:

- In **Fiji** these systems include *Kerekere* (asking for aid based on reciprocity), *solesolevaki* (joint communal labour), and *Solevu* (large scale mobilisation and redistribution of community resources, *Soli vakavanua* (communal collection and accumulation of funds) and the concepts of *vakaturaga* (chiefly behaviour) and *yalo solisoli* (social generosity).
- In **Samoa** the traditional mechanisms seen as part of *Fa'a Samoa* (the Samoan way). These include *Fa'alavelave* (a term which includes willing acceptance socio-cultural responsibilities), *Totoma* (asking, based on expectations of reciprocity), *Aula* (non-reciprocal giving), and *S'i*, (traditional gifts to victims of mishaps or the family of the deceased).
- In **Kiribati** traditional arrangements include resource and labour sharing amongst the *utu* (extended family), *karekare* (taking turns at joint work with non-utu members), *te ai ai* (sharing fire, now related to arrangements to supplying toddy), *Bubuti* (requests for gifts based on family relationships), *Te Katabetabe* (burden sharing, especially at funerals), and *Tekaonono* (Food sharing with people outside the utu).
- In **Vanuatu** practices vary and are described in different languages by different terms. These include resource sharing amongst the *Wantok* (a traditional social-cultural network of people with shared language, history, and genealogical lines), and ceremonial gifts at festivals (*nekowiar* or *toku*).
- In the Solomon Islands a *Wantok* system also exists, and here also this acts as a vehicle for mutual assistance between Wantok members.

While each country has somewhat different systems, and within Vanuatu and the Solomon Islands large differences exist between groups, there are certain common characteristics which also tend to be found in many other traditional societies. These include:

- Resource sharing within nuclear families based on primary family relationships,
- Resource sharing and joint activities amongst members of extended families based both on primary relationships and expectations of reciprocity,
- Resource sharing, joint activities, and risk pooling amongst wider community groups linked by common descent, culture, and/or residence, based both on cultural values and expectations of reciprocity, and
- In some cases, concepts of non-reciprocal giving, often based on religious concepts.

In the Pacific in particular there is a substantial traditional overlap between family and kinship, land ownership, wider community, and shared cultural values. The social protection elements of the system cannot be easily separated from the cultural and economic matrix within which they operate.

14.3 Modern extensions of traditional systems

Much discussion of the role of traditional social protection systems in modern society focuses on the extent of their erosion in the modern period. However, in one important area in the Pacific they have actually expanded in scope. This is the development of cash remittances to extended family members by Pacific migrants who move to the towns to take up cash employment, or move abroad to do the same thing.

Migrant remittances from abroad are now a major part of the economies of Samoa and Tonga, and are becoming a major factor in the Fijian economy. In cash terms these are far more important in aggregate terms to these countries than for example foreign aid. In Kiribati the earnings of seamen and fishermen employed abroad on foreign vessels are now an important source of extended family cash resources.

However, some qualifications need to be made about the role of migrant remittances as an element of social protection:

- There is no very clear relationship between the level of migrant remittances a family (or communal group or church) may receive, and the actual degree of poverty or need. Remittances are received by families with members abroad. The needy with no earning family members abroad do not receive remittances.
- Remittances from individual family member's resident abroad tend to decline over time as the date of migration becomes more distant. Hence, the continuation of migrant remittances depends on a continued fresh flow of emigrants to richer countries of settlement destination or temporary employment. High migrant movements have been a characteristic of the recent period for several of the five countries, but cannot be relied on to continue at this level for ever.

The reasons for the eventual decline in individual migrant remittances are various. Migrants are predominantly single or childless adults. At this stage of their life cycle the wages that can be earned from even unskilled work in a developed country provide a surplus of disposable income to fund remittances. As the migrants form their own families and have children, their cost of living rises and less or nothing is available as a surplus to send back. A similar phenomenon has been noted amongst rural Fijians who move to the Fijian cities to take up employment.

However, it also seems that there are other factors which affect migrant willingness to remit, and/or the range of relatives to whom they will still send assistance:

- Long absence tends to erode the closeness of extended family ties,
- The eventual realisation by many of the migrants that they will probably not return to live in their home village erodes the motive to send back money to keep alive their rights to family or communal land.
- The migrants may be affected by the individualism of the host societies.
- Remittances may be increasingly perceived by the migrants as a largely non-reciprocal relationship.

When working age adults with children are resident in their original village, the contributions they make to the extended family in the form of produce or cash are part of a reciprocal arrangement from which they also benefit. Grandparents or other family members may look after their children while they work. They have access to family or communal land to grow food, and can also use the land to erect a dwelling. Hence, the arrangements are genuinely reciprocal and mutually beneficial.

For the migrants abroad however a different situation applies. If both spouses work they must pay for child care. They must also pay for food, accommodation, transport, and the raft of nuclear-family related expenses. The former reciprocity is largely absent or notional. Hence, both willingness and ability to send money may erode.

14.4 Traditional systems in modern circumstances

Migrant remittances aside, several comments need to be made about the potential ongoing role of traditional mechanisms to provide social protection, particularly where they remained based in a subsistence or semi-subsistence rural economy;

- The traditional transfers are largely geared to meeting subsistence and cultural needs. They are not well geared to meet modern additional needs such as school fees, medical care, and things requiring cash outlays,
- Because access to assistance is heavily linked to family and communal relationships, and past reciprocity, people in need who do not have these appropriate relationships and behaviour history may get little,
- The system does not effectively accommodate strangers who migrate into the area,
- If the whole extended family or community is poor, ability to provide assistance to the needy is similarly limited. The risk pooling group may not be large enough, and
- Linking of entitlements to rank and social status in some cultures may not concord very well with modern ideas of equality, including in particular gender equality for women.

With these qualifications however, traditional systems will need to provide at least part of social protection in Pacific Island countries for the foreseeable future. None of the five countries are yet at a stage of economic development which would allow the funding of the full range of formal social security and social protection programs found in the developed industrial economies.

To the extent that traditional systems cannot meet modern needs, or the systems themselves are eroding, other options need to be considered. A number of these options can be regarded as being in the nature of social assistance.

14.5 Poverty in Pacific Island countries

Public social assistance schemes are designed to prevent poverty and destitution, and to meet basic needs. These terms have a variety of meanings, so it is useful to begin by summarising what is meant by poverty and how this applies to situations in Pacific Island countries.

The first concept of poverty is that of primary or **absolute poverty**. People living in absolute poverty cannot feed themselves or their families adequately, are dressed in rags, and are homeless or have only some type of hovel for a shelter. This type of poverty, also called destitution, is found in some parts of Africa and Asia. It is rare or absent in Pacific Island countries, at least so far. This fact often leads people to say that *there is no poverty in the Pacific*.

However, the second concept extends to secondary or **comparative poverty**. People affected by secondary poverty usually have enough to eat and are adequately clothed, though their food intake may not always have all the required nutritional components. They have some type of housing, even if it is not very satisfactory, lacks facilities, or is overcrowded. However, they are faced with a constant struggle to pay bills as they do not have enough cash income to pay for what have become basic needs in modern society. Hence they cannot pay school fees, medical bills, or contribute substantially in the expected manner to the social and religious activities which are a part of the Pacific lifestyle. They have enough for subsistence, but not more, or not much more. This type of poverty is relatively common in the Pacific, though people are affected by it to varying degrees. It is called comparative poverty because the people affected by it are poor in relation to what is normal in

their society. Another term for this is financial hardship. It may also contribute to what is called **poverty of opportunity** where for example children drop out of school because their parents cannot afford the associated costs.

The third concept is that of **vulnerability**. People in this situation usually have enough to feed, clothe, and house themselves, and to pay regular bills. However, they have no margin or safety net. Illness, unemployment, or crop failure will quickly push them into poverty. This situation is also common in the Pacific, notably where there is no formal social security for the majority of the population, and traditional social protection arrangements have eroded.

This range of situations then raises the question as to what are the *basic needs* that a social assistance system should provide for. This is a question to which there is no absolute answer, since it depends on the economy, culture, and fiscal possibilities of each country. However, in a Pacific context the needs that a social assistance system should address at a minimum would seem to be:

- Preventing absolute poverty or destitution, and
- Ensuring access to key services, notably health and education.

For the wider social security system the longer term aim is to develop measures which offset vulnerability and contribute to income adequacy. However, the immediate priorities in development are more basic than this. The Pacific situation would seem to fit the diagnosis of the June 2001 ILO conference, which concluded that the highest priority is to extend social security to those who have none. Given that many of the Pacific poor are in a situation where contributory social insurance is not currently a feasible possibility, this suggests that social assistance type measures are likely to be one of the priority approaches to extending social security. However, there are also other options for some groups, which will be commented on later. Also, in a longer term context thinking about improving the social security coverage of the formal sector needs to be included in the assessment of options.

14.6 General Issues for social assistance systems

While social assistance systems included in the social security systems of developed countries tend to focus mainly on cash benefits, other forms of social assistance are also common, more particularly in developing countries.

Using social assistance cash benefits as a major vehicle of assistance to the poor and disadvantaged is an approach which requires a number of factors to be in place for the system to work effectively. Most of these factors are also required for sector specific forms of social assistance. These include:

- An adequate source of funding,
- A definition of the unit of assistance (individual, family, household) which fits the social realities of the society concerned,
- An accurate system for identifying individuals claiming benefits,
- An effective administrative system which can accurately assess the real economic circumstances of the claimants,
- An effective payment system which can reach the claimants who may be located in remote areas,
- Design features which minimise as far as possible tendencies for benefit claimants to become benefit dependent, and
- Adequate anti-fraud systems.

By their nature, social assistance systems require a considerable amount of administration, and this needs to be factored into the costings.

14.6.1 Funding Sources

The funding sources for social assistance are usually the general revenues of the government or public authority, though in some cases designated special taxes may be levied. An issue in countries with two or more tiers of administration is the extent to which costs should be borne by local governments as distinct from the central government. For example in the United States the cost of social assistance (called *Welfare* in the U.S.) is split between the Federal and State Governments. In Fiji the cost of the social assistance system scheme known as the Family Assistance Scheme is paid for from central government revenues.

14.6.2 Assessment unit

The appropriate assessment unit for looking at who needs social assistance raises significant problems in a Pacific country context, where people are members of extended families and other wider groups. Basing assessment only on the individual or nuclear family may mean the social reality of resource sharing and reciprocal obligations is being ignored. However, assuming that the people concerned are being effectively supported by their extended family may also not reflect the true situation. This is a problem for which each country must find its own solution.

14.6.3 Identification

Accurate identification of individuals is a problem of varying size. It is most difficult where populations are large, people move around frequently, and birth registrations and other civil records are poor. Social assistance systems usually require claimants to produce identity documents (e.g. birth certificates, or identity cards where these exist), and may issue their own identity cards to the beneficiaries. Lack of accurate personal identification may mean that money goes to the wrong people, or people who are entitled miss out.

14.6.4 Economic situation of claimants

Assessing the real economic situation of claimants is difficult in countries where there is a lack of centrally held data on incomes and assets. Extended family issues make this particularly complicated in Pacific countries. However, unless the administration is set up to do an adequate assessment, the twin problems of needy people missing out and fraudsters claiming benefits they are not entitled to will emerge.

14.6.5 Effective payment systems

Effective payment systems are also needed. This is a particular problem for remote areas. In many Pacific countries most people do not have bank accounts or even access to banks. Choices need to be made between cash payment systems, vouchers, and the use of payment agents. Each of these systems has both advantages and drawbacks. After experimenting with a bank-based alternative for paying its Senior Citizens Benefit, Samoa opted for mobile payment teams which delivered the benefit to each village.

14.6.6 Welfare dependence

Designing social assistance systems to minimise the growth of welfare dependence and the handout mentality is a problem in all countries. Cost may be kept down by cutting assistance sharply as beneficiaries earn some other income, but in turn this may discourage work effort. No country has resolved this problem in a completely satisfactory way. Factors which help include restricting social assistance to people who cannot help themselves, and using other options such as special employment for those assessed as being able to work.

14.6.7 Anti-fraud

Finally, anti-fraud checks need to be built into the system. Whenever money is being given away, some people who are not entitled to it will seek to find ways to get their hands on it. This included benefit staff as well as benefit claimants, so the anti-fraud measures need to extend to regular checks on systems and staff, and on payment agents, as well as on claimants.

14.7 The scope of social assistance

Universal payments to specified demographic groups such as universal pensions for older people or universal family benefits for children are not normally classified as social assistance in the technical sense of the term. They may be assimilated into the concept if there are grounds for believing that virtually the whole demographic group is poor or disadvantaged, and hence that making a universal payment is the administratively simplest way to deliver on the social assistance objective. However, payments to specified demographic groups may also form part of a social assistance system in the following ways:

- Payments targeted against income and/or assets, such as the Australian means tested pensions for older people, or the New Zealand income tested family support payments to some families with children, and
- Allowances for children built into the payment rates for the amount of social assistance granted to a poor household. The way these payment amounts are built up to reflect family or household composition is called an Equivalence Scale.

Support for children or older people or other groups in need may also take the form of targeted assistance with health or education costs, or provision for other types of social services. This is commented on in more detail in the following section of social assistance by sectors.

14.8 Social Assistance in kind by sectors

Apart from cash benefits, social assistance systems may also apply in individual sectors. This is also referred to as assistance in kind. In virtually all these cases the assistance relates to *basic needs* plus education and health.

14.8.1 Education

Targeted assistance or scholarships to children from low income and disadvantaged backgrounds is frequently used where free education is not fiscally affordable. To allow poor children to go to school and/or prevent early dropouts they may receive scholarships or fee concession. An example of such a scholarship programme was the Indonesian scholarship programme set up as part of the Social Safety Net programme following the 1997-98 Asian crisis.

The Indonesian scholarships, which were distributed by local school-based allocation committees, were successful in stopping the large school drop out pattern which had accompanied earlier economic crises. However, problems with the programme included leakage of scholarship grants to children from non-poor families, plus the fact that the grants seldom reached children from poor families who were not attending school in the first place.

Targeted assistance of this type may also apply to tertiary study. Also, sometimes extra assistance is needed by poor children attending nominally free schools to cover the costs of books, uniforms, travel, and the like. In Fiji remission of school fees is used as a way of targeting education assistance to children from low income families. Samoa also has a similar scheme, though in practice it is seldom accessed.

14.8.2 Health

Where people seeking health care are charged fees, special assistance to the poor may apply. One option is to give health cards to the poor which entitle them to free or concessional treatment, with the government reimbursing the

providers. Examples include the Indonesian health cards for poor people, and the New Zealand Community services cards.

Another option where there are fee-charging public hospitals, clinics and dispensaries, is to exempt some categories of people deemed to be poor from paying these fees. An example of this is the exemption of recipients of the Samoan Senior Citizens Benefit from payment of hospital fees.

14.8.3 Food

Direct allocation of food by governments to poor people is rare. The main exceptions are situations of natural disasters or famines, or emergency refugee situations. However, a number of NGOs in countries such as Australia, New Zealand and the US run food banks. These involve direct gifts of food to poor people.

Somewhat more common are various forms of concessional food assistance programmes for poor people. Examples include:

The U.S. Food Stamps programme. Poor people (mainly social assistance beneficiaries) are given these stamps with designated values in exchange for a small co-payment. The stamps can then be used to buy food in many food shops. The government then reimburses the shop for the value of the food purchases represented by the food stamps. A type of food stamp programme also formerly existed in Sri Lanka.

Another variant is the Indonesian Rice Subsidy Card which entitles poor people holding the card to buy government provided rice at a cheap price. The amount permitted to be bought per family is limited to 20 kilos per month.

The New Zealand government sometimes provides emergency food vouchers to some social welfare claimants while their claims for regular benefits are being assessed.

Food concession rather than cash assistance tends to be given when Governments see priorities in meeting basic needs, and where there may be suspicions that cash aid will be diverted to other purposes.

14.8.4 Accommodation

Accommodation assistance to the poor is frequently found as part of broader social

assistance systems. A number of mechanisms exist.

- **Direct provision** of *social housing* to low income people. Examples include U.K. Council Housing, U.S. Public Housing, French *HLMs*, and New Zealand State Housing. Fiji also has a public housing program. Direct provision involves supplying poor people with houses or apartment provided at low concessional rents.
- Some countries may give **direct grants** to low income people for housing construction or alteration. An example is the Fijian housing grants which are part of the Poverty Alleviation Programme. Qualifying poor people can get grants of up to FJD 5,000 for housing construction and FJD 3,500 for alterations.
- **Concessional interest** loans for low income people to build or buy houses were formerly part of the New Zealand housing policy.
- Accommodation **cost subsidies** for low income people include the New Zealand Accommodation Supplement. This covers, rent, mortgage, and board cost, and is subject to income and assets tests of eligibility.

14.8.5 Transport

Transport cost concessions are extended to low income or disadvantaged people in some countries. Samoa for example gives free inter-island ferry travel to recipients of the Senior Citizens Benefit. Fiji provides free school transport for children in remote or outer island areas without schools.

14.8.6 Disability services

People with a range of disabilities have needs which are additional to those without physical or mental impediments. These may include things such as artificial limbs or modification of housing which lie on the margin between the Health and Social sectors. A social assistance approach funds these needs for low income people.

14.8.7 Maternity

Medical costs associated with maternity may be paid for low income women in countries with social assistance schemes for the poor.

Paid maternity leave however is normally part of employment-linked rights in the formal sector, and is usually funded by social insurance contributions or employer liability arrangements. In principle however it could be funded by public revenues. In New Zealand this is the case, though again this applies only to women in paid employment.

Extending the principle to all women via social assistance raises major problems of practicality in situations where there was no identifiable prior cash income to be lost. This is often the situation in Pacific Island countries where the majority of women are in the informal economy, and may be classified as unpaid family workers or domestic carers, even though part of their daily activity is involved in informal production.

14.9 Using the tax system for social assistance

Countries which have highly developed tax systems may also use these systems to fund some social assistance. For example the New Zealand tax system allows claims for family support for low and moderate income people with children to be offset against their tax liability. Fiji allows a tax concession for support of disabled relatives.

However, it should be noted that this approach is only feasible and equitable when most people are taxpayers in the cash economy. Tax concessions are largely irrelevant to poor people in the subsistence sector, since they have little or no cash income to tax in the first place, and so no income tax liability to be offset.

14.10 Other poverty reduction options

Options for reducing poverty amongst the poor and disadvantaged are not confined to social transfers such as social assistance. Some other options include the following:

14.10.1 *Special community employment*

For able bodied poor people able to undertake work a better option than social transfers will

sometimes be special community employment in infrastructure and social service projects.

Payment for undertaking this work is usually set close to or slightly above equivalent levels of social assistance payments, or unemployment benefits when these exist. The work undertaken is usually on infrastructure projects, such as repairing roads, clearing weeds and scrub, or on providing labour for needed social services. Work allocated may sometimes be part time or part week only to avoid undermining agreed wage standards for full time employment.

Special community employment projects of this sort have been used in Indonesia and New Zealand, and also in a number of African countries.

The advantages of this approach include the following:

- Severe poverty is reduced,
- Useful works or services are carried out to the benefit of the community,
- The otherwise unemployed retain a work ethic, and can gain pride from their contribution,
- With payments set below normal wages, the special workers have an incentive to exit the system when regular or seasonal work becomes available, and
- The requirement to undertake work acts as a way of screening out people with other options who might otherwise claim social assistance.

However, some cautions need to be borne in mind when considering setting up a community employment option.

- The system costs more per person to operate than passive social assistance payments. This is mainly because supervisors with adequate understanding of the tasks to be performed need to be appointed, and there are also other overhead costs such as provision of materials and tools and equipment for many projects.
- Regular supervision is needed to ensure that the work is actually carried out. Indonesian experience was that in poorly supervised projects work was often not done, or not done well.

- A vigilant eye needs to be kept on those responsible for implementing the community work projects. The New Zealand experience in the 1980s was that some local authorities, and even some NGOs, when allocated special workers then quietly reduced their numbers of regular paid workers, and let the community workers paid for by the government take over the tasks. The Indonesian experience after 1997-98 was that some of the implementing authorities paid much higher levels of allowances than set out in the regulations, hired fewer people than they were paid for, and gave jobs to people who were not poor.
- Adequate provision needs to be made for employment of women as well as men. A complaint about the Indonesian schemes was they focussed on providing jobs done mainly by men, but not women. This affects the range of jobs which need to be included in community employment schemes. Including social service type projects expands options for women as well as for men who are not very physically fit. Having women on the advisory committees which select projects for community employment would assist in this issue.

Overall, care needs to be taken to ensure that the community work chosen for projects is something extra of benefit to the community, and not work which would otherwise be carried out in any case by wage workers, self employed, or community volunteers.

An issue with some community employment schemes with low weekly payment rates is whether they undermine agreed minimum wage standards. Where this is an issue an option is to make the period of paid employment less than a normal work week. This could take the form of community employment for 2 or 3 days a week, or half days only.

Part time employment has some disadvantages in terms of continuity of work on particular projects. However, there are also some offsetting advantages. Supervisors can supervise two groups of special workers rather than only one, and this keeps down some overhead costs. Also, the community workers have more time to engage in job search or subsistence production.

14.11 Universal benefits

A further option is to pay universal benefits to groups such as the very elderly where there are grounds for concluding that most of the group are in fact in poverty.

Universal pensions are more expensive than targeted social assistance pensions, since they also go to people who may be rich or middle income, including those who already have retirement pensions from contributory or employer provided schemes. These people are excluded from entitlement in social assistance type pensions.

However, in some societies a universal pension may be a way of solving some policy dilemmas such as the administrative cost and political unpopularity of means tests on pensions. Also, universal pensions can provide a separate income for older women, who may not otherwise have any separate source of income.

A trade-off for the higher cost of universal pensions may be the setting of lower pension rates, and a higher pension entitlement age.

In the case of South Africa the universal pension for the elderly appears to have been beneficial. Living standards of the elderly improved, and studies showed that some of the assistance was also spent on other extended family members, such as grandchildren. Also, adult children were more willing to take older people into their homes when they could make a cash contribution out of their pension.

The South African case was of course quite distinctive, since the great majority of older Africans were living in poverty before the pension was introduced. This situation is not necessarily found in other countries.

In the developing Pacific universal retirement pensions are paid in Samoa from age 65 and Kiribati from age 70. Amongst the developed countries in the Pacific New Zealand has a universal pensions from age 65, but Australia has an income and assets test on its retirement pension. Elsewhere in the world universal pensions are rare. Amongst developing countries Botswana, Mauritius, Namibia, Nepal, and Bolivia have some form of universal retirement pension or grant, but most other developing countries do not. Amongst the developed countries they are also rare, since the main

reliance is on contributory social insurance and other contributory pensions. However, several Scandinavian countries have a low level universal pension which complements a predominant use of contributory social insurance pensions.

One other group which is sometimes the beneficiary of universal benefits consists of children. New Zealand had a universal family benefit up till 1991, though it was paid at a low rate. This benefit was abolished in 1991, and family assistance retargeted to low and moderate income families only.

Universal family benefits usually only emerge when birth rates show signs of dropping below population replacement level. The current demographic situation in the Pacific Island states is very different from this.

14.12 Universal sector in kind programs

A further option is to create universal entitlements to core *in kind* programs designed to meet basic needs. Examples include free education and free health care. Such programs are usually provided by public sector agencies or private and NGO organisations funded by the government. This is an approach which has been used in some Pacific Island countries. For example Fiji has free public health services.

Universal programs are expensive, and budgetary considerations may rule this option out. A further problem is that free universal systems are sometimes significantly under-resourced in many developing countries. In Fiji for example there are complaints that government pharmacies may sometimes lack some prescription drugs. In Indonesia in low income districts the public hospitals were also short of prescription drugs.

Free services provided without user charges also do not necessarily mean free access to these services by poor people. For example, although tuition may be free in public schools, money has to be found by the families of the students for books and materials, school uniforms, activity fees and *voluntary* donations, and transport to schools. These extra costs may make schooling unaffordable for some children from poor families.

Similarly public health services may be free in the sense that no user charges are levied, but poor people living in remote areas may not be able to

afford the transport costs of accessing these facilities. This may require a residual role for social assistance to fund travel costs. In Fiji for example the government pays the cost of transporting patients from remote areas who are referred to a public hospital.

Overall, free public provision systems work best where they are well resourced, and some supplementary consideration occurs for the poor.

14.13 Legally enforcing traditional obligations

Another option is to use the legal and administrative system to enforce generally accepted obligations of other persons to support the dependent poor person:

- In Singapore adult children who are earners are legally required to support their elderly parents if the latter are poor. In a recent court case the Singapore judge ordered the adult children to support an indigent father, but also said that the father had to move out of his existing apartment and move into a smaller and cheaper place before this was required to be done.
- Most developed countries have some form of maintenance or child support to supported deserted spouses and children. This approach also occurs in some developing countries. Fiji for example has a court based maintenance system, though the Fiji Department of Social Welfare advised that more than half of the required maintenance payments are in arrears.
- New Zealand has a Liable Parent Scheme where assessed amounts of child support levied against an absent, divorced or separated parent is collected by the tax department. New Zealand also has a bilateral agreement with Australia whereby each country will collect the liable parent contributions from each others citizens when these people shift between countries in order to avoid their financial obligations to support their children.
- The United Kingdom has a Liable Relative scheme which may apply where children are required to be supported by government benefits.

The possibility of effectively using the legal and administrative system to enforce some traditional

obligations to support dependents depends on several factors:

- The acceptability to the population of doing this. Some traditional obligations may no longer be regarded as reasonable to enforce, as they were really of a voluntary nature,
- The real economic situation of those required to pay. If the liable person is also poor, there is not much chance of getting support, and
- Administrative feasibility. Actual enforcement requires an effective administrative collection system.

14.14 Promoting community support options

Short of legal enforcement, the government and community leaders can promote community ways of providing for the poor and disadvantaged. One rural community in Fiji for example set up a program where its members provided one day of work a week on communal vegetable gardens which provided food for the poor. In urban areas voluntary food banks are also an option. The

scope for this approach will vary from country to country.

14.15 Development

The main way out of poverty for most of the population is linked to economic development and the expansion of economic opportunities this brings. However, most development issues lie outside the fields of social assistance and social security.

14.16 Choosing options

Pacific Island countries have limited resources and hence must take particular care in determining which of the various options for assisting the poor and disadvantaged should be considered.

This section sets out a *menu* of options, some of which may be relevant to each particular Pacific Island country. More specific proposals relevant to Solomon Islands are discussed in the next chapter.

Chapter 15 Social Assistance in Solomon Islands

15.1 Summary

This chapter looks at the unmet needs for needs for Social Protection in the Solomon Islands, and the extent to which it might be feasible to cover some of these needs by social assistance measures.

Social assistance is assistance to the poor and disadvantaged, targeted to individuals, families and households according to the level of their need. Its major forms consist of cash benefits, direct provision of goods and services in kind, and subsidies directed to the poor. Characteristically it is funded by general public revenues, though in some developing countries external donor and NGO funding plays a significant role.

While cash benefits are usually the main form of social assistance in developed countries, in developing countries there is usually greater focus on direct provision of goods and services or targeted subsidies to the poor. This was particularly so in a number of short term social assistance or *Social Safety Net* programmes introduced in crisis economies such as Indonesia after the 1997-98 Asian Crisis.

Particular issues in considering option for the Solomon Islands include the fact that most of the population and labour force is still employed in the semi-subsistence rural sector.

Also, the existence of strong extended family and resource sharing *Wantok* social arrangements means that it is very difficult to assess the real economic situation of individuals and families. Further, in the formal economy contributory schemes may be the best option for dealing with some of the currently unmet social protection needs.

The need to focus on economic recovery means that the Solomon Islands will need to be cautious in adding new areas of public spending. However, some increased social spending is a necessary part of development policy. Hence, if the Solomon Islands government cannot afford to fund across the board increases in human capital investment in areas such as education, an option is to use social assistance policies to target

additional spending to the most needy. There also may be some scope to retarget existing expenditure.

There are clear issues of access to services which work to the disadvantage of the poor, particularly in respect of education and training, and the situation of the disabled. If the Solomon Islands cannot afford free secondary education or free vocational training for all, then a cheaper option to open access to children from poor families is to set up scholarship or fee remission schemes targeted according to need. One option for funding this is to redeploy some of the funding now focussed on the tertiary education area.

Other areas of need which need to be addressed include services for the disabled, and the standard of rural and squatter housing. Retirement pension is another area which needs a longer term policy.

15.2 Introduction

The Solomon Islands group consists of nearly 1000 islands located in the South Pacific to the east of Papua-New Guinea, and to the north-east of Australia. The country has a combined land area of 30.4 thousand square kilometres. The sea area included in its economic zone is approximately 1.5 million square kilometres. The climate is tropical, and the location close to the equator means that there is very little variation in temperature during the year. The wet season is in the period November to April. Population density in 1999 averaged only 13 per square kilometre

The six principal islands (Choiseul, New Georgia, Isabel, Guadalcanal, Malaita and Makira) form a double chain around a sea known as Iron Bottom Sound because of the presence of a massive number of wrecks from World War II naval battles.

The modern state of the Solomon Islands which became independent from Britain in 1978 is divided into 9 provinces plus a separate town council for the capital Honiara which is located on Guadalcanal. Most government functions however are controlled or funded by the central government.

A distinctive feature of the country is the existence of 91 different indigenous languages for fewer than half a million people. The official language is English, but the main vernacular form of spoken communication is via a language known as Pidgin. The population is predominantly Christian, with a number of different denominations.

The Solomon Islands suffered major economic and social disruptions from the ethnic conflicts between different indigenous groups which broke out in 1998 and continued for several years, leading to the displacement of many people from areas of recent settlement. The economy is only now recovering from these conflicts and the preservation of law and order remains a high national priority. An invited multinational police force is assisting in this objective.

The Solomon Islands has very little in the way of modern social security, and most social protection depends on informal arrangements focusing on extended families and local socio-cultural and family groupings known as *Wantoks*. However, it has an active national provident fund, some employer provision for workers employed in the formal economy, largely free basic health care, and primary education which is in principle also free, although not necessarily so in practice..

15.3 Population

The 1999 census enumerated a total population of 409,042 people in the Solomon Islands, with the inter-censal growth rate between 1986 and 1999 averaging 2.8 per cent annually, all derived from net natural increase. Consequently the country had a very young age structure, with 41.5 per cent of the population being under 15 years of age, and only 5.1 per cent being 60 years or more. The dependency ratio of those under 15 and over 60 to those aged 15 to 59 was 87 per cent. The sex ratio was 51.7 per cent male and 48.3 per cent female.

Current estimates are that the population is now over 470,000, though accurate figures will not be known until the next census. The completed fertility rate averaged 5.6 children for women over 40, but may now be around 4.8 for current cohorts, though estimates vary according to the calculation method used. In 1976 the estimate on the same basis was 7.1 children per woman, so fertility is now declining. Estimates for the period 1997-1999 indicate a crude birth rate of 36 per

thousand, and a crude death rate of 9 per thousand.

Life Expectancy at birth is estimated at 60.6 for males and 61.6 for females. Infant mortality was estimated at 67 per thousand for boys and 65 per thousand for girls.

The population is overwhelmingly rural, with less than 16 per cent of those counted in 1999 living in towns. Most of these were in the capital Honiara, which in 1999 held 49,107 people, or 77 per cent of the town total, with another 5 per cent in the area immediately around Honiara. Honiara is the only real urban area as the eight other towns had fewer than 12,000 people between them, and ranked as towns only because of their administrative and trade functions.

The population in 1999 was 99 per cent locally born. Most of the population are indigenous Melanesians, though there is also a small indigenous Polynesian population in some of the outer islands. At the 1999 census 94.5 per cent of the people were classified as Melanesians, and 3 per cent as Polynesian. Micronesians were 1.2 per cent, and all others 1.3 per cent. The *other* group includes some Europeans and Asians as well as those of mixed origin.

Private households averaged 6.3 members in 1999, with the largest size being in Honiara at 6.7 members. The higher average in Honiara despite an apparently lower number of children per family in the town reflects the presence of many *Wantok* members who have joined Honiara-based households in order to seek work or educational opportunities.

Households are frequently composed of extended families, though it is usually close extended family members (parents, brothers and sister, and grandchildren) rather than others who are present in addition to the nuclear family members. The exception again is Honiara where *others* made up 24.3 per cent of household members.

Table 15.1 Percentage composition of private households

Household Element	Solomons	Honiara
Household Head	16.3	14.9
Spouse	12.3	10.9
Own Children	46.7	34.4
Sub Total	75.3	60.2
Grandchild	8.0	3.4
Parent	1.7	1.4
Brother or Sister	5.2	10.7
Sub Total	13.9	18.5
Other Relative	8.7	21.0
No relation	1.1	3.3
Sub Total	9.8	24.3
Total	100.0	100.0

In Honiara the presence of many relatives and *Wantok* members in households tends to add to crowding and to the financial pressures on the town-based populations.

15.4 Economy

No current official national estimates are available of national income and expenditure. The last official estimate was done in 1994. However, a World Bank estimate was that GDP in 2004 was about SBD 2,199 million. This is equal to about SBD 4,663 per capita or about USD 623 per capita. This level ranks the Solomon Islands as a least developed economy

National output had peaked in 1998 just prior to the crisis, and then fallen drastically as the ethnic conflict led to the close down of many enterprises, including plantations and mines. By 2002 national output had fallen 24 per cent on the basis of central bank estimates. Per capita, the fall was even larger because population continued to grow. By 2004 central bank estimates suggest that output in 2004 had recovered to about 85 per cent of 1999 levels. Per capita this is only about 73 per cent of 1998 levels. Current indications are that the recovery is continuing, with output growing at more than 5 per cent a year and the large palm oil plantations are now moving back into production. However, it is likely to take a number of years to recover back to 1998 levels of real income and output per head.

Exports f.o.b. in 2004 were USD 727.7 million about 33 per cent of the World Bank GDP estimate. Imports f.o.b. at USD 540.0 million were about 24.6 per cent of GDP. The Services Deficit was USD 78.6 million, but current

transfers showed a net balance of USD 377 million, reflecting high aid inflows. Consequently there was an overall current account surplus.

Exports now comprise mainly timber (USD 425 million), and fish (USD 101.4 million). The traditional copra, palm oil, and mineral exports have not yet recovered to their pre-crisis levels. There are doubts about the sustainability of the present logging practices, though timber is currently the predominant export earner for the Solomon Islands.

Overall, a scrutiny of export and services sector activity suggests that the current economy is one where a minority of the labour force involved in the modern cash economy produce most of the measured output, while the majority of the population involved in subsistence and semi-subsistence activities produce only a small part of measured GDP. However, more exact measures will not be available until the next household survey allows official national accounts estimates to be produced.

15.4.1 Government accounts

In the wake of the ethnic tensions the government accounts went into serious deficit. Revenues were depressed, and the fiscal situation was worsened by the need to pay compensation to victims of the disturbances.

However, by 2004 the accounts were actually in surplus. This was a result of a fortuitous combination of circumstances.

- Revenue began to recover as the economy picked up. Revenue was further boosted by initiatives to collect arrears of tax due,
- The government received large external aid grants which funded around 35 per cent of government spending in 2004,
- The compensation payments had been completed, and
- Budgeted expenditure in 2004 was substantially underspent in a number of areas through a combination of tight controls and delays in projects getting underway.

Government expenditure in 2004 was 596.4 million, equivalent to about 27 per cent of the World Bank estimate of Solomon Islands GDP. Revenue including grants of SBD 201 million was 710.9 million. Most of the non-grant revenue

comes from customs duties and sales taxes, with smaller contributions from company tax and individual income tax.

Whether the 2004 budget surplus situation will be repeated in 2005 is less clear. Budget allocations provide for a 14.7 per cent rise in spending on top of the 2004 allocations. Also, there are outstanding claims against the government relating to non payment of national provident fund contributions in the past. Hence, the scope for any increase in social spending is not clear.

15.5 Labour force

The Solomon Islands is a country where only a minority of the workforce are employed in the formal economy. In the 1999 census about 57,000 people or 23 per cent of the population aged 14 and above indicated that they were engaged in any kind of paid work. In contrast about 112,000 or 45 per cent were engaged in unpaid subsistence or semi-subsistence production in farming, fishing, and household related craft work. On this definition about 34 per cent of the labour force was engaged in the cash economy, and 66 per cent in subsistence or semi-subsistence production.

An employment survey was undertaken in 2003, but the results are still being processed. However, one marker of possible formal economy employment is shown by the numbers of active contributors to the national provident fund. In 1999 active contributors to the national provident fund totalled 45,985. This total represented only about 27 per cent of the labour force clearly in the formal economy. Allowing for some non-compliance, this figure would suggest that somewhat under one third of the labour force were actually involved in regular formal economy employment as distinct from intermittent involvement.

After 1999 NPF active contributors dropped as the economic situation deteriorated. By 2003 active contributors had fallen 4.3 per cent to 43,944 despite the increase in the size of the working age population in the interim. At this lower level, the regular formal employment ratio would have been around 23 per cent of the probable labour force. Since 2003 active contributors to the NPF have begun to rise again, and are currently thought to be back to the 1999 level.

For those in the rural economy not engaged in formal employment the term *semi-subsistence* is probably more accurate than *subsistence*. While most household economic activity is geared towards production for the direct consumption of the household, and for participation in communal activities such as feasts and ritual gifts, many rural informal economy participants also sell some products such as copra, fish, and handicrafts. The need for some cash in order to be a part of Solomon Islands life means that no significant groups are now entirely outside the cash economy, though this may sometimes be provided by extended family members who are working in formal economy employment. In addition, in the towns there are some self employed people in the informal economy who are now mainly involved in cash earning activities.

Rural semi-subsistence producers grow most of their own food, and town households also do some gardening or fishing. For Solomon Island households as a whole, 86 per cent grew bananas, 84 per cent grew sweet potatoes (kumara), 84 per cent cassava, and 66, 65 and 62 per cent respectively grew pana, yam, and taro. 62 per cent caught fish for their own consumption, 45 per cent raised pigs, and 37 per cent had other livestock.

Of the traditional cash crops for export or local sale, 42 per cent grew coconuts for sale, 31 per cent betel nut, and 20 per cent cocoa. About 25 per cent sold some fish.

15.5.1 Occupational structure

The majority of the employed population in 1999 were engaged in semi-subsistence farming and fishing, most of which was outside the cash economy.

For the 57,472 in paid employment in 1999 the biggest group comprising 11,859 were in agriculture. Many of these would have been employed in plantations. The next biggest groups were the 7,275 in wholesale and retail trade, and 7,237 in manufacturing. Overall, 19,175 or 33.4 per cent of paid employees were in the primary sector, 10,764 or 18.7 per cent were in the secondary sector, and 27,533 or 47.9 per cent were in the services sector.

It is not yet clear how the paid occupational structure shifted in response to the crisis. However, it is clear that many commercial

enterprises closed down, and some of their former workers returned to semi-subsistence production. More recently workers have been re-engaged as production has started up once more. This year for example the palm oil plantations have begun taking on workers again.

15.6 Living standards and poverty

As in many Pacific Island countries it is difficult to measure poverty in the Solomon Islands, since household boundaries are fluid, and the *Wantok* system means a considerable degree of resource sharing. Also, traditionally, people who had shelter and enough to eat and were able to participate in community life were not regarded as poor. Most Solomon Islanders meet these criteria. Poverty in the Solomon Islands in modern times is not therefore of the absolute kind found in some Asian and African countries. Rather it is financial hardship and poverty of opportunity. This has increased in the recent period as cash needs have risen with the adoption of a more modern lifestyle (e.g. fees for secondary schooling), and was exacerbated by the economic downturn which accompanied the ethnic tensions. However, until the household economic survey is completed, assessment of the financial and living standard situation of most households is partly conjectural.

There are some physical indicators of living standards in the 1999 Census, notably those relating to housing. Of the 63,404 private dwellings enumerated in the Census 17,942 were of permanent materials, 4,543 of semi-permanent materials, and 40,806 of temporary materials. 42,734 had roofs of thatched material and 43,088 walls of palm leaf. This indicated that most Solomon Islanders were living in traditional type dwellings made of temporary materials. While not unsuitable for a tropical climate, this type of housing needs to be rebuilt every few years.

More relevant were the statistics on flooring construction. Earth floors were found in 9,858 dwellings and timber floors in 33,864. Concrete floors were 5,191, and other 15,916. Earth floors usually indicate lower housing standards, though it is not clear what the large *other* group comprised.

Water supply and sanitation are even more relevant indicators. The 1999 census showed that 60.8 per cent of households had access to piped water, but only 23 per cent had modern toilets. Access to electricity was enjoyed by only 16 per

cent of the population, though 73 per cent in Honiara. In the Solomon Islands as a whole 87 per cent cooked with wood. However, 40 per cent of households had a radio.

Overall, this indicates that the majority of the population still did not have the modern amenities which are now standard in developed countries.

Several informants noted that squatter housing has begun to develop on the outskirts of Honiara. This problem can be expected to worsen as more people attempt to find paid employment in Honiara. Some companies which recruit workers from a distance supply employer provided housing

15.7 Social protection in the Solomon Islands

Traditionally the main form of social protection in the Solomon Islands was the resource sharing amongst members of extended families and *Wantoks*. The *Wantok* in the Solomon Islands, as elsewhere in Melanesia, is a socio-cultural group with linguistic and kinship connotations. Literally the word means *One Talk* or *Same Language*. It represents the group of people who regard themselves as obligated to other members of the group to share resources. Resource sharing is based on reciprocity, land use rights, and kinship relationships. A fuller description of the system is contained in the separate ILO report *Tradition and Social Security in the Pacific* which is also contained in Chapter 6.

For most Solomon Islanders the traditional forms of social protection are still the main ways people cope with adverse events in their lives. However, resource sharing through *Wantoks* is not now separate from the cash economy. For example extended family members working in regular employment are expected to help with the cash needs of other members. Indeed, a frequent complaint of urban people was the extent of the demands on their resources from rural family members, and the limited reciprocity they experienced. The indicators are that the *Wantok* system is under some strain, and this was a frequent comment in project Workshops. However, in the absence of formal social security the *Wantok* system will need to carry most of the social strains evident in the Solomon Islands. There are of course limits on what *Wantoks* can provide. For example rural *Wantoks* can provide food and shelter for people returning from the

towns. They are less well placed to assist in providing for cash needs.

15.8 Formal social protection

For the minority of the population employed in the formal sector, there are currently a number of formal social protection mechanisms.

15.8.1 National Provident Fund

The Solomon Islands National Provident Fund provides retirement benefits in the form of the lump sum accumulation of employer and employee contributions plus earnings in each members account. A funeral grant is also made if a member dies. NPF membership is compulsory for wage and salary earners.

Benefits can be drawn at age 50, or age 40 if actually retired. Other grounds include emigration, redundancy, or permanent incapacity. During the ethnic disturbances the NPF saw significant withdrawals of funds.

Formerly the NPF made loans to members for housing and other purposes. This has now been discontinued because of problems with repayments. However, member balances are often used as collateral by the banks.

The NPF also set up a medical insurance scheme for members. This experienced problems, and is now separate from the regular NPF system.

15.8.2 Employer provision

There are several types of employer provision of social benefits to formal economy employees.

Employers are liable for the costs of work accidents. For larger employers this is usually covered by private insurance which provides for medical costs and lump sum compensation. Compliance by smaller employers is however something of a problem.

Employers also provide sick pay which is a requirement of the labour legislation. The law provides for up to 22 days per year. Some employers including the government provide more than this.

Employers are also required to provide paid maternity leave for 12 weeks at 25 per cent of the wage or salary. Again, the government and some

employers pay 100 per cent for the 12 weeks. However, compliance by smaller employers is also a problem.

The employment legislation also requires employers to pay lump sum benefits based on years of employment when an employee's employment is terminated

Some employers also provide staff housing, although the more common practice now is to incorporate a housing allowance into cash pay.

15.8.3 Government provision

The government is the provider of some services to the whole population.

Health and hospital services for the population are free in government facilities. However, there are problems around the availability of services in remote areas, and difficulties in the level of health service resourcing actually available. There may also be significant transport costs in accessing the services. Medical evacuation is needed for more complex medical procedures.

Primary education is in principle also free in government schools, with government providing grants to government and private schools. However, in practice many primary schools also ask for contributions and involve parents in fund raising.

Secondary education places are limited, with exams restricting access. Limited geographic accessibility of secondary schools is also an issue. While secondary schools receive government grants, fees are also charged for pupils. The cost of these fees was frequently cited as a major problem for low income families.

Government also provides a large amount of funding for tertiary education in the Solomon Islands and abroad. This has increased very rapidly in the recent period, the cost rising from SBD 46 million to SBD 78.8 million between the 2004 and 2005 budget allocations. However, there is very little funding for vocational training or alternative education for school drop-outs.

Government and NGOs provide some disaster relief from time to time, though responses tend to be ad hoc rather than part of a systematic policy. Aid is usually sought from abroad.

15.9 Gaps in social protection

The most obvious formal social protection gap in the Solomon Islands is that apart from government health and education measures, most of the population has no formal social security protection at all. No formal social assistance scheme exists. Formerly the Social Welfare Division of the Ministry of Health in Honiara was able to provide some food assistance to the destitute in Honiara, and funding to repatriate destitute people back to their home villages. This funding is no longer available. There is also no cash support available for widows, sole parents, and deserted wives. However, there is some protection for deserted wives via court ordered maintenance, assuming that the departing spouse is in regular cash employment, and hence able to be subject to pay deduction orders..

Even for the minority of the population employed in the formal economy there is no provision for:

- Invalidity,
- Long term sickness,
- Work injury weekly benefits (only lump sums),
- Unemployment, and
- Retirement pensions.

While cover is provided for in legislation, there are also compliance problems with smaller employers in the actual availability of work injury cover, paid maternity leave, and sick pay.

For the time being the *Wantok* system and the ability to return to villages of origin makes up for most of these formal economy gaps. However, the *Wantok* system is under increasing strain. Once people have lived in towns for two or three generations, return to the land to take up subsistence production is a less and less feasible option. Rapid growth of the population also means that much of the traditional rural land that urban individuals might have some claim on will already be occupied by others from the extended family or *Wantok*. Also, while there are still large areas of underutilised land in the Solomon Islands, land occupation by people other than the traditional owners was one of the primary reasons for the recent ethnic conflicts in the Solomon Islands.

This raises the issue of the extent to which social assistance can be used to cover some of the emerging gaps.

15.10 Issues for women

Issues raised by women in the consultation process for drafting this report included the following:

- In the Solomon Islands most positions of authority are held by men. Hence women's priorities tend to get little support.
- Girls are less likely to receive an education than boy, and the situation gets more marked the further up the education chain that is considered. For example in secondary education in 2004 there were 11,891 boys but only 9,355 girls. However, by form 6 there were 403 boys but only 200 girls enrolled.
- Women tend to bear the brunt of responsibilities to keep the family together.
- There is nothing in the way of formal support for deserted wives, or women sole parent, apart from some access to court ordered maintenance.
- There is only very limited support for women victims of domestic violence or abuse. Shelters are provided by NGOs and church groups, and not by government.

15.11 Social protection needs

Discussion with stakeholders identified the following areas of unmet needs in the Solomon Islands:

- Lack of access to secondary schooling, and problems in paying school fees, particularly secondary school fees,
- Lack of training opportunities for school drop outs,
- Unemployment,
- Limitations in availability of medical and health services,
- The low standard of water and sanitation facilities in rural areas,
- Squatter housing developing on the outskirts of Honiara because people could not afford permanent housing,
- Lack of facilities for people with disabilities,
- No cash retirement pensions, and
- Non-compliance with employment act obligations by some small employers.

The initial stakeholder workshop indicated that education, health, and unemployment were the most pressing priorities in the Solomon Islands.

Only some of these problems may be best approached through social assistance. More generally decisions will need to be made about the appropriate split of responsibilities between the formal economy and families and *Wantoks*. Within the formal economy, choices need to be made about the options of contributory social insurance, general government provision, or targeted social assistance. The comments which follow are grouped according to the nature of the need.

15.11.1 Education and training

Education is already the largest single component of government spending, with an allocation of SBD 183.9 million in 2005, so care needs to be taken in looking at the costs of any increased educational outlays to meet social needs.

In 2004 the Solomon Islands had 84,756 primary students, and 21,246 secondary students. Primary school numbers are affected by the fact that some student do not enrol until they are nine years old, and hence the primary school age grouping is larger than is normal in some other countries. Figures are also affected by deferred enrolment because of the ethnic tensions. Drop out from education already affects the upper primary school participation, and at the transition to secondary schooling most students cease participating as there are only enough secondary school places for a minority of the youth population.

Current government funding allocations by level of education are extremely skewed. The primary schools with 77 per cent of the student population receive 30 per cent of the funding. Secondary schools with 18 per cent of the students receive 29 per cent, which reflects higher cost levels. However, tertiary study with 2 per cent of students attracts a full 39 per cent of funding, but technical and vocational education, also with 2 per cent of the student numbers receives only 4 per cent.

These ratios have led some informants to suggest that there may be some room within the existing budget to reallocate expenditure from subsidising highly expensive tertiary study to other areas of need.

Within a reallocation framework social assistance priorities would seem to be:

- Fees remission or fees subsidies for secondary school students from poor families, and
- Assistance with tertiary and vocational training for school drop outs from poor families.

This social assistance approach could be introduced without necessarily increasing total educational expenditure.

It may be noted that a provision already exists to allow fee remissions in government secondary schools if a supporting report is provided by the Social Welfare Division of the Ministry of Health about the financial difficulties of the child's family. However, in practice only a very small number of such fee remissions are granted in any year.

15.11.2 Unemployment

With the high proportion of the workforce involved in semi-subsistence activities, a general unemployment benefit open to all applicants is not realistically feasible in the Solomon Islands.

Conversely, it would be feasible to introduce a contributory short term unemployment insurance benefit for formal economy workers who are now contributing to the national provident fund. The priority of this would need to be weighed against other social protection priorities for this group. However, as this is a social insurance rather than social assistance matter, it is not further commented on in this text.

Another option would be to set up a contributory redundancy fund into which employers would pay regular contributions rather than large lump sums when a worker was made redundant. This would ensure payment of due redundancy money to workers laid off from their jobs. For employers it would mean small ongoing regular contributions into a redundancy fund rather than the need to find large amounts of cash to pay for mass redundancies if a firm got into difficulties. Some funding could possibly also be used to fund retraining of redundant workers.

A possible approach for other unemployed outside the formal economy is to set up community employment schemes. These are

government-funded schemes providing needed local infrastructure or social services which can be carried out by generally low-skilled workers. The weekly pay rates for undertaking the work are set lower than local weekly wage rates to ensure that workers take up regular or seasonal work when this becomes available. To avoid undermining agreed minimum hourly wage standards, the community employment work may be part time only. These constraints mean that community employment participation is *self screening*, and attracts only those badly in need of even some paid work. Those with better options, whether wage employment or self employment, would go elsewhere.

This may not be the best time to introduce community employment schemes, as the current government priority is to get wage workers back into regular employment. However, it may be a social safety net option to consider if the Solomon Islands experiences another employment disruption such as that which occurred in the wake of the ethnic conflicts.

15.11.3 Health and disability

Social assistance in the health sector normally takes the form of schemes such as health cards which entitle the poor and disadvantaged to receive free or subsidised treatment by the health services.

In principle the existence in the Solomon Islands of free public health services funded from taxation should mean that there is no need for specific social assistance in the health sector. In practice, although health is the second biggest area of government spending, budgeted at SBD 87.1 million in 2005, the health sector is under-resourced in relation to medical needs. The situation is the most difficult in the outer islands.

Practical options for injecting more resources into the health sector probably depend on the introduction of wider health insurance. At that stage a second review could identify whether there were areas where social assistance for the poor is needed in the health sector.

In one area however it is clear that resources for a disadvantaged group is clearly inadequate. This is the availability of services for the disabled. The few services currently existing are provided by NGOs with limited resources, with no financial help from government. This would

seem to be a priority area for injecting some more resources.

15.11.4 Housing and facilities

The water and sanitation facilities available to households in the rural Solomon Islands are still a long way short of what is desirable from a health and wellbeing standard. This is a long term development issue, as much of the needed response involves public and community works as well as investment in individual households. However, some of the issue revolves around household access to funding to improve household facilities.

Modern urban housing is unaffordable for many Solomon Islanders moving to the towns. A consequence apart from *crowding in* with relatives and *Wantok* members, has been the beginnings of *squatter* settlements on the outskirts of the towns, notably Honiara. Experience elsewhere in the Pacific indicates that this could be a rapidly growing problem given the high rate of natural increase of the population. The issue is further complicated by problems of obtaining land by purchase or lease. While virtually all Solomon Islanders have some claim on land in their villages of origin, many are effectively landless in the areas they have migrated into for employment and other reasons.

For those with adequate regular employment a key issue is access to loan money to buy or construct housing, as well as access to land. Meeting this need will depend in part on the response of the banks and other financial institutions which at the moment are very cautious about housing lending. Informants indicated also that Banks were charging 12 to 15 per cent interest on mortgage loans. The loan accessibility situation may improve as the economy improves.

For the poorer groups in the population there is little capacity to service loans even if they were permitted to borrow from the institutions. Assisting low income people to resolve their housing problems may require the government to put money into social housing. This could take the form of concessional loans or grants for building materials, along the lines of the Fijian schemes, or even the government building low income rental housing for those with regular employment but low incomes in the towns.

A major problem with even concessional lending to low income households is loan default. In some cases outright grants may be a solution, provided fiscal funding is available. In other cases new approaches such as *Wantok* loan repayment guarantees may need to be considered.

15.11.5 Retirement pensions

At present there is no system of retirement pensions in the Solomon Islands. For formal economy workers the national provident fund procedures provide for lump sum retirement grants. However, the experience in the Solomon Islands and elsewhere in the Pacific is that most of these lump sum grants are quickly spent. Thereafter the retired person relies on rural production and extended family and *Wantok* support. People retiring from the formal economy are thus soon in the same situation as the informal economy majority who have no NPF lump sums.

To date the Solomon Islands social system has coped adequately with this pattern, since most people still have strong village connections, and the proportion of the elderly in the population is very low. Those aged 65 plus were only 3.4 per cent of the enumerated population in 1999, and those aged 70 plus only 2 per cent. Hence their support is not quantitatively a large burden on rural relatives. However, both these features will change over the coming decades as the connections between urban dwellers and the villages grow weaker, and the share of the elderly in the population rises in line with rising life expectancy and changing age structures in the population. The Solomon Islands will then be faced with the prospect of growing numbers of older people who cannot realistically be expected to be supported by subsistence economy relatives.

For people employed in the formal economy, part of the solution is to shift NPF retirement benefits from a lump sum grant to a pension or mainly pension basis. This may need to be associated with an increase in the age at which retirement benefits can be taken. This should resolve the problem for many people.

However, the Solomon Islands could still eventually be faced with the problem of growing numbers of inadequately supported older people whose pensions are inadequate because their earnings were low, or who have no pension

because they were never contributing members of the NPF. Possible solutions to this problem are:

- A general tax-funded pension for all older people such as now exists in Samoa and Kiribati. Samoa provides a tax-funded pension at age 65, and Kiribati at age 70, and
- A Social assistance type pension provided only to the poor, such as the Fijian Family Assistance Scheme benefits.

These options will need to be carefully weighed up for longer term consideration. However, the more immediate priority attaches to converting NPF retirement benefits from a lump sum to a pension or mainly pension basis.

15.11.6 Small employer non-compliance

This is mainly a compliance issue which needs to be resolved by adequate administrative measures.

15.12 Summary

The Solomon Islands has a number of serious social protection problems. Many of these are similar to those experienced in other Pacific Island countries at similar stages of development. However, the problems in the Solomon Islands have been exacerbated by the economic and social damage caused by the ethnic conflicts which broke out after 1998. The economy is only now recovering from these consequences.

To date many of the more serious problems which Solomon Islanders faces in daily life have been eased by the resource sharing amongst extended family and *Wantok* members. This system of reciprocal obligations has substituted for the formal social protection mechanisms such as social security which are found in more developed countries. The *Wantok* system is still strong, but it is under increasing pressure. In particular formal economy workers find the heavy demands on them difficult to bear at the same time their own cash needs are increasing with the monetisation of the economy and the higher cost of living.

Government priorities at the moment are the restoration of the economy, and consolidation of law and order. Within the social sector, the priorities are health and education, which involve investment in human capital. In both these areas

shortages of resources are evident. In most other social areas there is little or no government provision, and limited provision by NGOs.

To the extent that government cannot afford to fund across the board extensions of services to the whole population, social assistance approaches which target free or subsidised services only to the poor and needy can be considered. In other areas where there is contributory capacity contributory social insurance options can be considered.

The capacity of the Solomon Islands government to fund even social assistance approaches to service provision is of course limited. Hence, for the next few years ahead only a limited set of priorities can be considered. Suggested short term priorities include:

- Funding fee remission in secondary schools and vocational and technical education for children and teenagers from poor families by redeploying some of the funding now going into tertiary education,
- Reinstating emergency food grants and repatriation assistance to villages for the destitute in Honiara, and
- Assistance to organisations providing facilities for the disabled.

For the longer run, consideration should be given to:

- Assisting poor households to construct housing,
- Invalidity benefits, and
- Retirement pension.

15.12.1 Social security in Solomon Islands

(i) Old age, disability and survivors

Program Type	Provident fund (national provident fund)
Coverage	All employed workers aged 14 or above earning at least SBD 120 per month. Special system exists for public sector employees.
Funding	Insured person 5 per cent of wages. Employer 7.5 per cent of payroll.

Benefits Lump sum based on accumulated contributions plus interest. At age 50, 40 if retired, any age if emigrating.

Also lump sum disability or survivors benefits similarly calculated, and fixed lump sum death benefit.

(ii) Work injury

Program type Employer liability scheme with compulsory insurance with a private carrier. Labour Division administers.

Coverage Employed persons earning under SBD 4,000 per year including public sector employees. Some casual workers covered.

Funding Employer pays

Benefits Temporary disability benefits 50 to 100 per cent of wages related to the assessed degree of disability.

Permanent disability gives lump sum of 48 months earnings up to a maximum.

Medical expenses met.

Also 36 months survivors benefit (less any permanent disability previously benefit paid) and some funeral grants.

(iii) Unemployment

Employers are required to pay a dismissal indemnity of 2 weeks wages for each year of employment.

Chapter 16 Employment Injury Schemes: Principles

16.1 Introduction

The purpose of this chapter is to outline and elucidate the concepts, principles and practice in the field of workers' compensation insurance. The term *workmen's compensation*, later broadened into *workers' compensation* in order to include female workers, had generally been replaced by *Employment Injury* as used in relevant ILO Conventions and Recommendations approved in 1952 and 1964, but will be retained in this paper in view of its prevalence in Pacific Island countries.

Compensation for work-connected injuries is the oldest and most widespread form of social security protection. Some European countries enacted legislation in the 19th century (Germany 1884, UK 1897 and France 1898) whilst Australia's and New Zealand's first statutes on the subject were approved in 1902 and 1908 respectively and 1908 was the date for the first legislation enacted in Canada and the USA. Even so, due to the special characteristics of this branch of social security it can be said to be still evolving in many countries, including some which have had very lengthy experience of workers' compensation insurance. One reason for this is the extensive scope of protection since the benefits comprise medical care, and both short and long-term cash benefits as well as rehabilitation and there is the potential to attain increasingly higher standards in these areas. Another significant concern is to extend coverage as widely as possible throughout and beyond the formal sector of employment. There is also the possibility of supporting in various ways strategies and programmes for the prevention of occupational risks as an important aim in a system of workers' compensation protection.

The broad range of objectives that may be pursued has produced different national responses which will be outlined in this report in order to illustrate the range of policies and strategies that may be adopted in reforms of existing schemes. The importance of this type of protection is underlined by the fact that, despite the progress in technology and the means of preventing accidents and occupational diseases, there is an unacceptable level of occupational

accidents each year. ILO and WHO estimate an annual toll of about:

- 1.2 million work-related deaths,
- 250 million accidents,
- 160 million work-related diseases, and
- That 4 per cent of the world's GDP is lost through various direct and indirect costs of these workplace accidents.⁹¹ Death, illness and injury on such a scale hinder efforts to accelerate social and economic progress.

It is important therefore to understand the theory and practice in this branch of social security, including the relevant ILO standards, as a basis for reviewing the existing schemes and deciding on the policies and strategies for strengthening the social security protection of the workforce against the consequences of occupational risks.

This chapter consists of three parts:

- Concepts, principles and standards of workers' compensation protection,
- Structure of workers' compensation Insurance, and
- Reform and development of workers' compensation schemes.

Additional sections contain a wide range of information on key features of both employer liability and social insurance schemes for this contingency in selected countries and a description of the Accident Compensation Insurance Scheme in Samoa. The successful implementation of a social insurance scheme in a Pacific Island country may be of special interest to other countries interested in improving the standards of protection in this branch of social security.

⁹¹ Report V (1) Recording and notification of occupational accidents and diseases and ILO list of occupational diseases. International Labour Conference, 90th Session 2002

16.2 Concepts, principles and standards of workers' compensation protection

16.2.1 World-wide trends to develop more effective systems

(i) Adoption of no-fault system

Countries with workers' compensation schemes in one form or another numbered 174 out of 177 in 2003 known to provide some form of social security.⁹² The contingency of employment injury has had precedence because of the pressing problems of providing compensation to the victims of work-connected accidents (this term is usually understood to include both accidents and occupational diseases) and their families, since such accidents occur in every country whatever the levels of industrialisation. Most countries have gone through stages in their search for more appropriate and effective systems. Common law actions on the issues of liabilities and negligence were not an effective method of gaining adequate and prompt payment of compensation, since the process could be slow and costly with no guarantee of favourable outcomes. Countries searched for more suitable systems particularly as they became more industrialised. The introduction of workers' compensation schemes was a significant step forward under the doctrine of employers' liability for no fault compensation (usually with no right to sue for damages).

National legislation established workers' compensation schemes that came under administrative control by government bodies responsible for handling claims and supervising the system of determining liability and providing the prescribed benefits. The risk faced by employers is insurable and some countries stipulated that employers must insure against accidents so that payment of compensation would be guaranteed. Workers' compensation became an important branch for insurance companies. They determined the insurance premiums according to their assessment of the risks in the various industrial sectors and also their experience in paying out claims to individual employers. Obviously, this system gives incentives to employers to improve their safety and health records, or to conceal from the insurance carriers their more serious incidents by

not claiming (and instead settling directly with the injured worker or family) because of the impact on their insurance premiums. It should also be noted that, in practice in certain countries, commercial insurance has not always worked in favour of claimants due to efforts by some companies to maximise profits by rejecting and disputing claims seen to be borderline or not clearly within the scope of the insurance policies.

16.2.2 Conversion into social insurance systems

In general, the scope of the workers' compensation schemes has broadened over the years from the manual workers in heavy industry to cover all or most employees, including female workers. Some adopted the name of workers' compensation to indicate the wider coverage. Workers' compensation schemes have stood the test of time and have been refined and extended to deal with the many difficult problems in this field including changes in the nature of occupational risks to technological developments and the increasing use of chemicals in industry and agriculture. However, some criticisms or weaknesses in the employer liability system can be noted:

- The legislation generally tends to define liability narrowly, to limit the medical and cash benefits and to exclude rehabilitation of disabled workers,
- Serious disputes over liability have to be resolved through the courts causing employer-worker confrontation and delays,
- Where employers have no insurance cover, the settlements in serious cases can lead to bankruptcies and closure of the businesses (and in some cases to pressures on workers and their dependants to accept lower sums),
- Most if not all schemes do not provide for pensions for serious permanent disability and death cases as there is no mechanism for this and therefore pay out lump sums which are a much less effective replacement for the earnings lost and contrary to the concept of providing periodical payments in long-term

⁹² Social Security Systems throughout the World 2003, Social Security Administration, USA and ILO sources.

contingencies found in the relevant ILO conventions,⁹³

- Resistance to claims by insurance companies leading to delays and rejections or settlements lower than legal entitlements, and
- From the gender perspective, female workers have tended to be disproportionately excluded by virtue of occupation whilst the absence of pensions has reduced the protection afforded to dependants who are primarily female.

The solution adopted by many countries has been to convert the workers' compensation schemes to social insurance schemes. Some regional examples are included in Table 16.5 such as India (1948), Japan (1947), Malaysia (1969), Pakistan (1973), Samoa (1978) and Thailand (1972). This trend can be noted also amongst smaller countries such as those in the Caribbean, including Barbados (1966), Guyana (1969), Jamaica (1965), St. Kitts (1985), Saint Lucia (2000) and St. Vincent (1997); the last 3 countries have populations of 38,000, 147,000 and 116,000 respectively (2003), similar to some Pacific Island countries.⁹⁴ By establishing autonomous funds for this branch all funds collected are available for the purposes specified in the legislation unlike the situation in employer liability schemes where profits and overheads of insurance companies issuing workers' compensation policies are lost to the system. Over 70 per cent of the schemes worldwide utilise social insurance principles of pooling risks and finances for work-connected contingencies, in other words replacing individual employer liability by the collective approach making it possible to provide adequate health and income protection conforming to the internationally accepted standards in this field.

16.2.3 Development of roles in accident prevention

Concepts of workers' compensation insurance have evolved from the central function of providing health and income protection on a no-fault basis for manual workers most at risk to

systems with much wider coverage and broader objectives. This trend has been made possible by conversion of employer liability schemes into social insurance systems operating pooled funds to promote high standards of health and income protection. Supporting or strengthening accident prevention is an obvious interest for workers' compensation schemes which have to bear the consequences of work-related injuries. The main reason for emphasising prevention as a primary or important responsibility of the insurance system is that protecting workers against injury and death should take precedence over providing adequate compensation after they have suffered accidents or contracted occupational diseases, although this is highly important. Nevertheless, various national approaches can be noted from a basic and generally passive role consisting mainly of supplying information on accidents to another government body with the main responsibility for Occupational Safety and Health (OSH) to the other extreme proactive role of the actual integration of accident prevention with the administration of workers' compensation insurance, and positions at points between these basic and ultimate positions.

16.2.4 Extension to whole population

New Zealand adopted a new approach by extending insurance cover to the whole population including school-children and non-working adults. The financing for insured persons is through insurance premiums paid by employers and the self-employed and, in addition, revenue is collected by taxes on petrol sales and on motor vehicle licences. Government subsidises the benefits for non-earners. The scheme provides cash and medical benefits but also emphasises accident prevention and rehabilitation not only for the development of work skills but also for social integration. Samoa also has extended coverage widely so that in addition to all employees the scheme also protects the whole population against the consequences of specified conveyance accidents (full details are given in Appendix 16B).

16.2.5 Extension to 24 hours coverage

Some countries have broadened the concept of workers' compensation protection by extending the coverage of the scheme to 24 hours and 7 days per week. For Pacific countries the best example is provided by Samoa which introduced this extended cover from September 2003 and

⁹³ The main modern ILO Conventions are the Social Security (Minimum Standards) Convention (No.102 of 1952) and the Employment Injury Benefits Convention, (No. 121 of 1964).

⁹⁴ Social Security Programs throughout the World-the Americas 2003" (USA Social Security Administration)

began to collect a contribution from insured workers of 1 per cent of insurable earnings to finance it. The initial results in terms of claims for non-work-related accidents indicates the potential importance of this change in Samoa, as explained in detail in Appendix 16B

16.2.6 Abolition of workers' compensation scheme

However, there are differing views on the relative importance of workers' compensation and countries decide what is suitable and desirable for them. The Netherlands is an example of a country which abolished the separate work injury branch in 1967. This was due to the belief that there is no justification for differentiating between contingencies such as general sickness and incapacity for work due to accidents at work or occupational diseases or disability and death. In other words, the needs for health and income protection are the same regardless of the whether or not the cause is work connected. Since 1967 work-connected accidents in that country received exactly the same types of compensation as are provided under the general sickness and disability scheme.

16.3 Relevant ILO Standards

ILO standards have had a considerable influence on the development of employment injury protection. The earliest ILO Conventions on this topic referred to *Workmen's Compensation* but this term was replaced by *Employment Injury* reflecting the extension of protection from the original target of manual workers in factories and mines to cover all types of workers and the expansion of female employment. The following list shows that the first conventions were approved in 1921 and that a gradual evolution took place when the social security instruments were modernised in 1952 and 1964.

Table 16.1 ILO Conventions concerning employment injury

Convention No.12	Workmen's Compensation in Agriculture, 1921 (revised by Convention No.121)
Convention No.17	Workmen's Compensation for Accidents, 1925 (revised by Convention No.121)
Convention No.18	Workmen's Compensation for Occupational Diseases, 1925
Convention No.19	Equality of Treatment for National and Foreign Workers as regards Workmen's Compensation for Accidents, 1925
Convention No.42	Workmen's Compensation for Occupational Diseases, 1934 (revised by Convention No.121)
Convention No.102	Minimum Standards of Social Security, 1952
Convention No.121	Benefits in the Case of Employment Injury, 1964

The earlier conventions were focussed on specific requirements in respect of accidents and diseases respectively but the later instruments Conventions and 102 and 121 are broader in scope. Some of the main principles in the latter are:

- Employment injury protection must be financed by employers as a continuation of the responsibility for workplace safety,
- Coverage should be at least half of the national workforce, or 20 per cent of all residents,
- The benefits shall comprise medical care in respect of a morbid condition and cash benefits,
- Eligibility for benefits may not be made subject to the length of employment, the duration of insurance or the payment of contributions; however, a period of exposure may be prescribed for occupational diseases,
- Benefits shall be provided throughout the contingency except that in respect of incapacity for work the benefit need not be paid for the first 3 days in each case of suspension of earnings,
- Benefits for longer-term contingencies, such as permanent disability and survivorship, should be in the form of periodical payments payable throughout the contingency (with an exception for minor degrees of disability for which lump-sums may be paid),
- Rates of such benefits shall be reviewed where following substantial changes in the general levels of earnings where these

result from substantial changes in the cost of living, and

- Minimum standards for benefits (Convention No.102) include 50 per cent of lost wages for an eligible worker with a family (spouse and 2 children) and for a surviving spouse with 2 children, 40 per cent; these rates were increased to 50 and 60 per cent respectively by Convention No.121.

Convention No. 121 provides that countries shall define industrial accidents, including conditions under which commuting accident are considered, as industrial accidents. Social insurance schemes have tended to expand the scope of protection by including commuting accidents; for example, in Europe-Belgium, France, Germany, Greece and Spain, (but not Denmark or UK) and in Asia - India, Republic of Korea, Malaysia, Pakistan and Philippines, which may constitute the only real risk faced by many workers. This may be somewhat controversial initially in some countries as departing from the concept of an accident at work that in theory is preventable by the employer and can be verified by him as having occurred nevertheless. Furthermore, complications are inevitable because of personal aspects such as deviations from the usual route for shopping, leaving and collecting children from school and other reasons. Nevertheless this extension of liability has benefited workers in less risky occupations and therefore has been important for female workers.

An important feature of Convention No.121 is Article 26 which requires actions on prevention of occupational risks and rehabilitation. On the latter, countries are required to provide rehabilitation services which are designed to prepare a disabled person wherever possible for the resumption of his previous activity or if this is not possible the most suitable alternative gainful employment, and to take measures to further the placement of disabled person in suitable employment. These two functions of support for prevention and for programmes of medical and vocational rehabilitation are important features of modern social security systems on which information is provided in section 16.10.

Initiatives to strengthen protection in respect of occupational diseases were taken in 2002 with the approval of the List of Occupational Diseases Recommendation, No.194. The conventions on

migrant labour call for equality of treatment in regard to eligibility rules and benefit entitlement and for reciprocal agreements among governments to ensure that migrants can receive compensation either at home or abroad. The relevant Conventions are shown in Table 16.2.

Table 16.2 ILO Social Security Conventions concerning migrant labour

Convention No.118	Equality of Treatment of Nationals and Non-Nationals under Social Security, 1962
Convention No.157	Establishment of an International System for the Maintenance of Rights in Social Security, 1982
Convention No. 165	Social Security for Seafarers (Revised), 1987
Convention No.167	Safety and Health in Construction, 1988

ILO standards on occupational safety and health are of great importance. These are described in section 9 on accident prevention and rehabilitation.

16.4 Preferential standards for employment injury protection

Social security systems usually evolve over lengthy periods of time and the long duration of workers' compensation insurance may well influence the policies adopted for particular branches of social security. In the case of protection against the effects of work-connected injuries, this was often the first branch of social security and was envisaged as a replacement for the systems of claiming compensation under common law. Since the new doctrine included no right to sue employers for compensation it may not be surprising that initially the rates of benefits were relatively high. The first schemes were for manual workers only or specific categories in the riskier occupations. This background resulted in special or preferential standards for this contingency compared with the provisions for equivalent contingencies of a non-occupational origin. The UK was an example of this with a separate system of industrial injuries and higher rates for all benefits, which in any case are not subject to any contribution conditions because of the principle that workers should have full protection from the beginning of the employment; however, the separate industrial injuries fund was abolished in 1975 and now the levels of short-term and survivor benefits are identical to those for other claimants, but disability attracts special higher rates and allowances.

The original justifications in the UK for higher scales of benefit was that certain industries in which workers were exposed to high levels of risk (such as underground mining and logging) were vital to the national interest and needed generous compensation systems to attract sufficient numbers of workers. However, a counter argument that the most significant basis for compensation is not the cause but the consequences of the injuries has been found convincing in numerous countries. In other words, whether a worker is disabled for further

employment by an accident at work or one unconnected with work his needs (for medical and cash benefits and rehabilitation) and those of his family are the same.

Nevertheless, differences in benefit levels remain in many schemes and the views of ILO Member countries are reflected in the standards adopted at various times. The following table shows the prescribed rates for employment injury and for equivalent contingencies on the basis of standard beneficiaries

Table 16.3 Rates of periodical cash Benefits (percentages)

Contingency	Standard Beneficiary	Minimum Standard	Higher Standards	
			Convention	Recommendation
Employment Injury <ul style="list-style-type: none"> • Temporary incapacity • Permanent total disability • Survivorship 	Man with wife and 2 children	50	60	66 ² / ₃
	Man with wife and 2 children	50	60	66 ² / ₃
	Widow with 2 children	40	50	n/a
Sickness	Man with wife and 2 children	45	60	66 ² / ₃
Invalidity	Man with wife and 2 children	40	50	60
Survivors	Widow with 2 children	40	45	55

The prescribed rates for temporary incapacity may be compared with those for sickness (non work-related) for which the minimum standards (Convention No.102 of 1952) are 50 and 45 per cent of previous earnings respectively, whilst the higher standards in later conventions, Convention No.130 of 1969 for Sickness and Convention 121 of 1964 for Employment Injury are the same. The equivalent contingency of permanent total disability in the employment injury branch is invalidity in the pensions branch for which the prescribed rates in Convention no 128 of 1967 are 10 percentage points lower for the minimum and higher standards, and 6²/₃ points under the recommendations. In the case of survivorship the minimum standards are the same but the later conventions prescribe 5 points higher under employment injury.

Another reason why employment injury schemes may pay higher rates of long-term benefits in practice compared with pension schemes is because they do not impose contribution conditions and benefit entitlement is not related to length of insurance. For example, instead of accumulating pension rights under a formula based on average earnings and the number of years of contributions, which may mean that the full rate is payable only after at least 30 years, persons with brief periods of insurance under the

employment injury schemes can qualify for full rate permanent disability pensions, or their dependants can receive survivors pensions, based on the recent earnings at rates which are not related to the length of insurance.

15.5 Structure of workers' compensation schemes

15.5.1 Organisational framework

(i) Overview of functions

Workers' compensation schemes may be established as separate schemes or part of a broader social security scheme. Employer liability schemes necessarily are separate schemes established under the auspices of the Department or Ministry of Labour, or equivalent, which is responsible for the implementation of the legislation and therefore has a supervisory role. The authority has the duty to ensure compliance with the law which entails duties such as the following:

- Receipt of claims and determination of entitlement under the legislation for compensation for settlement by the employers or their insurance companies,

- Enforcement of the legislation and action on complaints by employees or on evidence of non-compliance by employers,
- Maintenance of statistics and preparation of reports on the experience of workers' compensation on an annual or periodical basis, and
- Drafting of amendments to the law to bring it up to date or revise its provisions.

Social insurance schemes register employers and their workforce and establish systems of collecting and recording contributions, processing claims and finance and accounting for the employment injury insurance branch. These schemes may be administered by government departments or autonomous bodies supervised by boards appointed by the responsible Minister with either a tripartite or bipartite structure. The starting point is the receipt of claims supported by accident reports consisting of the victim's statement of the time, place and nature of the accident and the employers' report confirming the account and certifying that the accident took place as stated. The claim may be for medical care only, for medical care and cash benefits, or solely for cash benefits. The social security institution has to determine entitlement and ensure that benefits are provided as prescribed in the legislation. The essential first step is to determine whether or not the accident is compensable under the law according to the definition of the contingency in the legislation.

The following sub-sections deal with the subjects of coverage, definition of the contingency, medical care, cash benefits, rehabilitation, prevention of occupational risks and administration of workers' compensation schemes.

(ii) *Administrative Organisation*

In their approaches to the organisation of social security schemes, countries may aim primarily to gain the efficiency advantages of a comprehensive unified system in which all branches are administered together, or may prefer to maintain a number of separate schemes which can provide more specialised services and give full scope to bipartite or tripartite management. Historical practices may account for the current stage of organisation in some older schemes whilst developing countries may tend to start with a concept of a unified system. Stakeholders' views may be influential in this

respect as they may wish to retain an existing system of governance of a workers' compensation scheme, in which they have gained expertise, rather than agree to it becoming a branch in a wider system under the supervision of a tripartite board. The technical differences between workers' compensation and other schemes, especially in the structure of the contribution systems, may influence decisions on maintaining a separate status. Where a number of separate schemes operate in a country they may agree on a unified system of collection of contributions through one institution for efficiency and cost reasons. France makes extensive use of joint contribution collection agencies in its system comprising separate national funds for sickness, pensions, family allowances and unemployment insurance organisations under bipartite management.

Another factor is the organisation of government itself since in countries with a Federal constitution such as Australia and USA, in which workers' compensation is designated as a State subject resulting in separate legislation and differences between schemes in the country, whereas pensions are organised nationally to allow for migration of contributors between States. In Australia there is a national scheme for federal employees and USA also runs a federal workers scheme and a national scheme for miners (pneumoconiosis).

The UK, when reorganising social security after the Second World War chose to unify the separate schemes into one system and this may facilitate development of a fully coordinated system with interlocking benefits. A one-stop approach ensures that claimants who could have dual entitlement are provided with the appropriate benefit, which could arise when a claim for TDB is delayed due to queries about the eligibility of a particular accident and sickness benefit may be paid provisionally until the matter is resolved. Furthermore, overlapping entitlements such as to invalidity under a pension scheme or to permanent disability benefits from a workers' compensation scheme can be resolved readily compared with the difficulties where two institutions and separate legislation are involved.

France chose to retain the separate schemes that come under tripartite supervision and prefer to specialise to improve governance and the standards of protection. Consequently, there are separate national pension, sickness and family

allowance funds as well as unemployment organisations. Administering the work injury scheme by the sickness fund ensures coordination with the provision of disability and sickness benefits.

Countries such as India and Pakistan have grouped branches providing sickness, maternity, and employment injury benefit which facilitates the provision of medical care under the scheme. However, where the contributions are risk-rated the workers' compensation branch may be separately run even where it is grouped within the framework of the main social security organization, as in Thailand. Another approach adopted in the Philippines when the employer liability scheme was converted into a social insurance system, was to collect the uniform contribution rate through the main social security institution, but to establish a separate body responsible for the policy and technical development of the workers' compensation scheme.

Japan is an example of a country which merged all social security programmes under one government ministry after some decades of operating a comprehensive system through the Ministry of Health (pensions, social health insurance and family benefits) and the Ministry of Labour (workers' compensation and unemployment insurance). The Ministry of Health, Labour and Welfare was created in 2001 and became responsible for all branches. This unification calls for strengthened coordination amongst the different schemes in order to benefit from improved policy cohesion and across-the-board strategic planning.

Samoa established the Accident Compensation Scheme under the Ministry of Labour, which is also responsible for OSH programmes, separately from the Samoa National Provident Fund (SNPF) under the Ministry of Finance. Initially, SNPF collected contributions on behalf of the Accident Compensation Scheme but later the board found it advisable to take control of this function.

Due to the constantly evolving situation of work-injury insurance some countries have encouraged specialisation in regard to the requirements of different sectors of agriculture and commerce. The prime example is Germany with 35 specialised accident insurance funds functioning under the supervision of employers and trade

unions with acquired expert knowledge of all health and safety issues in their sectors and able to undertake constant efforts to reduce accidents and occupational diseases as well as to rehabilitate the disabled and provide compensation.

16.6 Coverage

16.6.1 Employees

The focus of the workers' compensation and employment injury schemes is on employees, and the main trends have been the gradual extension of coverage from manual workers in higher-risk occupations to more and more categories sometimes, with maximum earnings limits for inclusion, until most social insurance schemes now cover most or all insured employees who come within the scope of the social security legislation. This can be seen in the examples in Table 16.5, such as China, India, Malaysia, Pakistan, Philippines and Thailand, and also is generally true of employer liability schemes although some lag behind the overall trends and utilise features such as earnings limits (Kiribati, Singapore and Solomon Islands) or schedules listing covered occupations (India and Pakistan) to restrict liability (Table 16.6). The prospect is of further extensions of coverage in those countries which have yet to include the smaller enterprises in their schemes.

(ii) *Other types of income-earners*

New Zealand and Samoa stand out for their approach of protecting the whole population through one system. Other countries may extend coverage gradually from all employees to additional categories, one example being Germany which insures farmers, children attending nursery school, or school, students, persons helping at accident scenes and civil defence and emergency rescue workers. In other countries, whilst employees are the main target, the question arises about the risks faced by other categories of income earners. In general, obstacles to protecting own-account and self-employed workers for this contingency include:

- The absence of the control measure of employers' reports and certificates that accidents took place in particular circumstances as a basis for determining employment injury claims, which leads to the possibility that the self-employed could

suffer non-employment accidents and claim they had occurred during working hours and met requirements for medical and disability benefits;

- The immediate risks to the employment injury scheme as there are no contribution conditions in this branch;
- The relatively high benefit rates usually payable in this branch and the long-term pension liabilities arising from permanent disability and death cases; and
- The possibility of adverse selection where it is difficult to enforce the coverage to all types of self-employed and those at severe risk constitute a disproportionate proportion of those insured.

Another issue is that the standard schedule of disability ratings of loss of earnings capacity is appropriate to employees and may not be applicable to some categories of the self-employed since the prescribed earnings loss could be much less in practice in some situations, due to the disabled persons' control over working practices and possible support from family members. For example, a small business such as a shop or workshop could function much as before with little or no earnings loss if the partially disabled self-employed person is able to delegate more functions to family members or his workforce.

On the other hand, the fact remains that many self-employed persons are entirely dependent upon their own manual labour and they, plus family workers in some instances, could suffer greater economic losses than employees as a result of serious employment accidents. Other categories who can continue in charge of income-earning activities with some restrictions may still be badly affected financially by the physical incapacity due to the accident. Furthermore, protection against the consequences of serious commuting accidents is desirable for all types of persons dependent on their earnings. These various considerations have lead some countries to require self-employed persons to participate in workers' compensation schemes or to permit voluntary coverage (Germany) which is sometimes only of specified categories of smaller enterprises in certain sectors. However, developing countries generally do not include self-employed persons in their social security schemes or limit their inclusion to certain branches such as pensions of social health insurance schemes.

Examples of the broader scope of coverage (Table 16.9) are provided by Japan and the Republic of South Korea which allow voluntary coverage of the agricultural, fishery and forestry sectors with less than 5 workers and South Korea extends this to small-scale construction projects, domestic employees and the self-employed. Mongolia provides the option of voluntary cover for self-employed persons in view of the large numbers of cattle breeders who are dependent on their labour and face risks in their daily activities. In Europe, examples of compulsory coverage of self-employed persons and certain other groups are provided by Austria (self-employed), Denmark (self-employed in fishing and shipping), Germany (farmers), Italy (non-manual workers in dangerous work, self-employed in agriculture and domestic workers) and Portugal (the self-employed are compulsorily insured for employment injuries and may opt also for insurance against occupational diseases). Finland allows self-employed persons to join voluntarily.

16.7 Definitions of employment injury

16.7.1 General approaches

The definition of the contingency is a key feature in this branch of insurance. There may be significant differences in approach between workers' compensation schemes and employment injury insurance systems due to variations in their objectives. Whilst both types of scheme are designed to compensate workers and dependants for the consequences of work-connected accidents, usually workers' compensation schemes tend to be restrictive in order to limit employer liability whereas employment injury schemes aim to compensate all cases of true employment injuries. The basic definition of an employment injury is the concept of a personal injury by accident arising out of and in the course of the employment, subject to the exclusion of self inflicted injuries and those caused by the serious and wilful misconduct of the workman concerned. Social insurance schemes often expand the basic definition of a personal injury arising out of and in the course of the employment by presumptions, such as that accidents *arising out of also occurred in the course of the employment, unless the contrary is proved*. It is also usual to specify that accidents occurring in certain specific circumstances should be treated as employment injuries.

16.7.2 National examples

Table 16.7 contains some national examples of the main definitions in use in 7 European countries and two from developing countries in Asia. These emphasise the essential element of a work connection and that all such occurrences are employment injuries. For the smooth working of the scheme its liability must be clearly defined in order to facilitate claims and avoid doubt in the interests of the insured workers. Whilst in general accidents occurring during normal working hours in the employer's establishment are accepted as coming within the definition of an employment injury, unless evidence is produced to the contrary, favourable presumptions are needed because of the nature of some claims for borderline situations, such as when workers leave the usual workplace and suffer accidents, and questions arise about whether the absence was authorised and was for the purposes of the employer's business. Some national examples illustrate this point.

The social insurance scheme in Malaysia, which defines the contingency as a personal injury to an employee caused by accident or an occupational disease arising out of and in the course of his employment, provides examples of the presumptions which may be incorporated in the law to remove any doubt in certain situations. These include:

- (a) A general presumption as to an accident arising in the course of employment.

For the purposes of this Act, an accident arising in the course of an insured person's employment shall be presumed, in the absence of evidence to the contrary, also to have arisen out of that employment.

- (b) Accidents happening while meeting emergency.

An accident happening to an insured person in or about any premises at which he is for the time being employed for the purpose of his employer's trade or business, profession, vocation, occupation or calling shall be deemed to arise out of and in the course of employment if it happens while he is taking steps, on an actual or supposed emergency at those premises, to rescue, succour or protect persons who are, or are thought to be or possibly to be, injured or

imperilled, or to avert or minimise damage to property.

A similar liberal approach is possible in employer liability schemes and one example is the legislation in Kiribati. The Workmen's Compensation Ordinance, the main defects of which are found in the system of benefits and lack of provisions on compulsory insurance, contains liberal definitions of accidents clearly aiming to compensate employees for, all accidents which could reasonably be considered as arising out of the employment. Accidents whilst travelling to and from work can be included in certain circumstances. Seamen employed in Kiribati ships are covered in respect of accidents which occur in Kiribati and elsewhere or on board or otherwise. There is no jurisdiction in the case of Kiribati seamen employed in non-Kiribati ships.

Brunei's employer liability scheme provides another example. Under the legislation, a worker is entitled to compensation in respect of a personal injury by accident arising out of and in the course of the employment. This standard definition is broadened by a series of provisions as follows:

- An accident arising in the course of the employment is deemed, in the absence of evidence to the contrary, also to have arisen out of that employment;
- Accidents happening whilst travelling to or from his place of work whilst with the express or implied permission of his employer using transport operated by or on behalf of the employer;
- Accidents happening whilst attempting to rescue persons in an emergency or to protect property;
- Accidents occurring whilst acting in contravention of orders or rules if the accident would still have happened and the acts were for the purposes of the employers' trade or business; and
- Accidents outside Brunei where the accident would have been compensable if it had occurred in Brunei.

The Brunei legislation contains presumptions in the workers' favour where they are diagnosed as suffering from an occupational disease as employment within 30 days of the diagnosis in a specified occupation is taken as proof of have contracted the disease through the employment.

Entitlement is also accepted where the worker contracts a scheduled disease within 12 months of ceasing to be employed in a specified occupation.

16.7.3 ILO instruments

ILO Conventions do not contain guidance on this key definition and the Employment Injury Benefits Convention No.121 of 1964 only specifies that commuting accidents should be included under prescribed conditions, but ILO Recommendation No. 121 provides that the following shall be treated as *employment injuries*.

- (a) *accidents, regardless of their cause, sustained during working hours at or near the place of work or at any place where the worker would not have been except for his employment;*
- (b) *accidents sustained within reasonable periods before and after working hours in connection with transporting, cleaning, preparing, securing, conserving, storing and packing work tools or clothes;*
- (c) *accidents sustained while on the direct way between the place of work and:*
 - (i) *The employee's principal or secondary residence; or*
 - (ii) *The place where the employee usually takes his meals; or*
 - (iii) *The place where he usually receives his remuneration.*

Commuting accidents schemes may constitute a significant proportion of claims due to the traffic congestion prevailing in urban centres where the schemes cover the working population.

The basic element of *a personal injury by accident arising out of and in the course of employment*" can be supplemented by the general presumptions in the preceding paragraph to ensure that borderline cases are within the scope of the law. This is done to assist genuine cases but also simplifies the adjudication processes. Employment injury schemes which do not include traffic accidents, because of the difficulty of applying clear-cut principles on employment injuries to a wide range of cases occurring outside the workplace and the employer"

s jurisdiction, may make an exception for accidents involving workers travelling in the employers' transport, as these are within his responsibility and can be verified. This would

cover many workers where employers regularly transport groups of workers to and from the place of employment whether this is a construction site or an office.

A model definition of an employment injury, which includes both accidents and occupational diseases, therefore, is:

Employment injury means a personal injury by accident caused on or after the Appointed Day arising out of and in the course of employment. For the purposes of these Regulations an accident arising in the course of an employed person's employment shall be deemed, in the absence of evidence to the contrary, to have arisen out of the employment.

Protocol 2002 to the Occupational Safety and Health Convention (No. 155 of 1981) provides the following definitions.

"Occupational accident: an occurrence arising out of or in the course of work which results in fatal or non-fatal injury"

"Occupational disease: any disease contracted as a result of an exposure to risk factors arising from work activity"

These definitions differentiate a work-related accident from the general concept of loss of earnings capacity from invalidity which should exclude cases falling under employment injury insurance. If the claim for employment injury benefits is rejected as not coming within the definition, it may, where the condition causes sufficient loss of earnings capacity and is permanent, qualify under the provisions on invalidity; however, this would be conditional also on the payment of sufficient contributions

16.7.4 Accidents whilst travelling

As regards commuting, the extension to risks involved in travelling to and from work is a departure from the concept of a workplace the safety of which is an employer's responsibility but this has become accepted since for many employees the main dangers occur during the daily journey from home to work and back again. However, this is inevitably complicated when employees deviate from the direct route for personal reasons such as taking children to or collecting them from school, shopping or visits to a doctor. The basic question arises whether

activities of this nature have severed the connection between the journey and work. The main requirements are that the journey is on the normal or direct route and that any such deviations are justified.

Even so this type of case may call for additional administrative efforts due to the range of personal circumstances which may occur and lead to borderline cases and difficult decisions. Police reports may be required to verify that accidents occurred at the time and place stated by claimants. Usually established schemes include commuting accidents, but not invariably, and some newer schemes may defer introducing this type of cover until there is sufficient administrative experience to cope with the difficult cases which occur under these provisions. Commuting accidents are widely covered in the older schemes in Europe (but not or not usually in Denmark, Norway, Italy, and the UK) the following examples of a typical set of provisions on this type of accident are:

- “1) An accident happening to an insured person shall be deemed to arise out of and in the course of his employment if the accident happens while the insured person—
 - (a) Is travelling on a route between his place of residence or stay and his place of work;
 - (b) Is travelling on a journey made for any reason which is directly connected to his employment, or
 - (c) Is travelling on a journey between his place of work and the place where he takes his meal during any authorised recess.
- (2) If the accident under subsection (1) occurs during any interruption of, or deviation from, the insured person's journey made for any of the purposes stipulated in the same subsection, the accident shall not be deemed to arise out of and in the course of his employment.”

Another approach found in some schemes which have not legislated for general commuting accidents is to provide for only for accidents occurring when employer's transport is used.

“An accident happening while a person is, with express or implied permission of his employer, travelling as a passenger in any vehicle to or from his place or work shall, although he is

under no obligation to his employer to travel in any vehicle, be deemed to arise out of and in the course of his employment if:

- (a) the accident would have been deemed so to have arisen had he been under such an obligation; and
- (b) at the time of the accident the vehicle was being operated by or on behalf of his employer or some other person by whom it is provided in pursuance of arrangements made with the employer, and was not being operated in the ordinary course of a public transport service.

In the section references to a vehicle includes reference to a ship, vessel or aircraft.”

16.7.5 Prescribed occupational diseases

Under the Convention No.121 Benefits in the Case of Employment Injury, 1964 an occupational disease may be defined in one of three ways:

- (a) by prescribing a list of diseases comprising at least those listed in Schedule 1 to the Convention (list system);
- (b) by stipulating a general definition broad enough to cover at least the those diseases enumerated in Schedule 1 to the Convention (general definition system); and
- (c) by prescribing a list of diseases in conformity with Schedule 1 and to complement it by a general definition (mixed system).

This convention contains a list of 15 diseases which was increased to 29 in 1980. The mixed system is in wide use in European countries (for example, Denmark, Germany, Italy, Norway, Finland and Portugal.) The essence of the protection afforded to workers under employment injury schemes who may contract any of the diseases listed in a Schedule to the Act, is automatic access to the medical and cash benefits under provisions stating that where an employee is suffering from a disease included in the list of occupational diseases it shall be presumed, unless the contrary is proven, to be due to the nature of his employment when he was employed in the relevant prescribed occupation at the time when or for the appropriate period before he developed the

disease. Adding diseases to the official list is possible where this is permitted under the legislation (mixed system), but may be difficult in countries that do not have well-developed occupational health services and research activities in this field, or at least contact with international organisations able to advise on such issues. The fact that Japan in 1996 added 22 chemicals to the list of occupational diseases caused by chemicals as a result of careful monitoring of effects of substances used in workplaces suggests that other countries may face the same risks but are not yet able to assess this for workers' compensation insurance purposes.

Because of the difficulty that workers may face in proving that a disease is directly attributable to the victim's occupation, Recommendation 121 accompanying Convention No.121 provides that *unless proof to the contrary is brought there should be a presumption of the occupational origin of such diseases*

Industrialised countries usually have compiled lengthy lists of occupational diseases (Ireland 56, Germany 67 and France 98) but in many developing countries the legislation identifies about the same number as are listed in ILO Convention No.121 (for example, Malaysia 27) and very few occupational diseases are reported in practice due to weaknesses in diagnostic procedures and the state of development of occupational health services. Nevertheless, they do occur for example in industries with widespread use of chemicals or excessive dust problems or noise. In numerous countries the technology for detecting and treating such diseases lags far behind the trends for increasing use of dangerous substances in industrial, including agro-industrial, processes. Countries need to be vigilant and either engage in research themselves or obtain the results of appropriate research for use in protecting the workers concerned from contracting such diseases in the first place, rather than merely compensating them or their survivors if and when workers are diagnosed as suffering from these diseases.

Countries that have drawn up a list of diseases for compensation and notification purposes, although lists differ in content and may not always contain minimum periods of exposure to the risk, include China, Finland, France, Greece, Republic of Korea, Malaysia, Myanmar, New Zealand, the Philippines, the Russian Federation

and the UK. Countries that use a general definition may accept any disease considered to be occupational and related to work; examples are Australia, Sweden and the USA where general definitions of occupational diseases are provided by law. In Italy and Sweden recognition of such diseases is open-ended and not subject to severe restrictions.

A dual approach is followed in some other countries such as Germany and Switzerland which use an official list and also accept other diseases for which there is strong evidence of their occupational origin. In Japan occupational diseases are listed under 9 broad categories related to the agent or mechanism responsible for the disease, which is open-ended as additions caused by an agent or mechanism may be made. Countries that have developed this mixed system include Austria, Canada, Denmark, Finland, Islamic Republic of Iran, Mexico, Thailand and the USA (not all States).

After wide ranging discussions in recent years amongst the social partners on the subject of maintaining a sufficiently broad scope of occupational disease protection, and to respond to urgent needs to expand the list and simplify procedures for updating it (for example, in relation to serious concerns about SARS and avian flu) the ILO Conference in 2002 approved the List of Occupational Diseases Recommendation No.194. This prescribes that national lists of occupational diseases should be drawn up in consultation with representative organisations of employers and workers respectively, which should comprise at least the diseases listed in the ILO Convention No.121, as amended in 1980, the list annexed to the Recommendation, and a section entitled *Suspected occupational diseases*.

The annexed list stipulates categories or types of diseases; for example:

- (a) Diseases caused by chemical, physical and biological agents lists 40 types,
- (b) Diseases caused by target organ systems diseases names 14 such diseases,
- (c) Occupational cancer lists 15 categories, and
- (d) Other diseases and miners' nystagmus (rapid eye movements, sleepiness).

16.8 Benefits

An employee unable to work due to an employment injury has two main priorities; ready access to adequate and affordable medical care and income replacement benefits for the duration of the absence. The social security benefits in this field range over

- Comprehensive medical care for injured workers or those incapacitated due to an occupational disease; and
- Income replacement benefits for temporary incapacity, permanent disability, and survivorship.

16.8.1 Medical care

ILO Conventions and most national legislation in this branch of social insurance accord first importance to medical care. The Social Security (Minimum Standards) Convention (No.102 of 1952) prescribes in Article 34 comprehensive medical care comprising:

- (a) General practitioner and specialist in patient care and outpatient care, including domiciliary visiting;
- (b) Dental care,
- (c) Nursing care at home or in hospital or other medical institutions,
- (d) Maintenance in hospitals, convalescent homes, sanatoria or other medical institutions,
- (e) Dental, pharmaceutical and other medical or surgical supplies, including prosthetic appliances, kept in repair, and eyeglasses, and
- (f) The care furnished by members of such other professions as may at any time be legally recognized as allied to the medical profession, under the supervision of a medical or dental practitioner.

The concept is of the scheme assuming responsibility for maintaining, restoring or improving the health of the person protected and his ability to work and to attend to his personal needs (Article 34 of the Social Security (Minimum Standards) Convention, No. 102 of 1952). This Convention provides that where a country has made a declaration under Article 3 that its economy and medical facilities are insufficiently developed it may be granted a temporary exception from the provisions in Article 34 paragraph 2 and the medical care

under the employment injury branch should include at least:

- General practitioner care, including domiciliary visiting,
- Specialist care at hospitals for in-patients and out-patients, and such specialist care as may be available outside hospitals,
- Essential pharmaceutical supplies as prescribed, and
- Hospitalization where necessary.

This list together with the provision of artificial limbs, when prescribed by a medical board, constitute the minimum range of medical benefits to be provided under an employment injury scheme.

The Social Security (Minimum Standards) Convention and the Employment Injury Benefits Convention, (No. 121 of 1964) stipulate the principle that the medical benefits shall be provided throughout the contingency and free of charge to the insured workers who have suffered an accident or are diagnosed as ill due to an occupational disease. The Employment Injury Benefits Convention (No.121 of 1964) contains an additional provision of emergency treatment at the place of work of persons sustaining a work-related accident.

Table 16.8 shows that in general the selected social insurance schemes provide a wide range of medical care including surgery and hospitalisation which extends to the provision of artificial limbs and appliances with no cost or time limits at no charge to the injured persons. New Zealand requires a minimum payment but provides very extensive rehabilitation services, and Samoa allows overseas medical treatment up to a maximum of WST 15,000, whilst Thailand is an exception in that it imposes a cost limit of THB 35,000 (about USD 920 at the current rate of exchange) and this can be increased to THB 50,000 in certain circumstances.

Employer Liability schemes, as shown in Table 16.9, tend to provide more restricted care which may be through public health services in some countries such as Hong Kong, Sri Lanka and Singapore. However, the legislation in Kiribati makes no provision for medical care presumably due to the fact that it was drawn up when public health services were expected to provide full medical care to all citizens.

Under the social insurance schemes, only accredited institutions or medical or rehabilitation practitioners may provide medical care under the employment injury scheme. They are paid directly by the social insurance authorities, except in cases of emergency or other situations where reimbursement may be allowed by regulations. In any case, non-accredited providers should be paid only for emergency services and only for the duration of such emergency.

16.8.2 Cash benefits

(i) *Temporary disability benefits (TDB).*

The attending doctor should issue a medical certificate stating the duration of absence from work which is the basis for assessing entitlement to TDB. In general, absences may be relatively short-lived but a proportion require prolonged treatment which may finally determine that the victim has suffered a degree of permanent disability. Consequently, the main features of TDB should be:

- No contribution conditions to apply,
- The rate should be related to recent earnings and set at a level which provides adequate income support but leaves incentives for return to work as soon as medically advisable, and
- Duration should be flexible enough for the various types of case which occur.

In addition, it is to be decided whether to invoke the provisions in relevant ILO Conventions⁹⁵ which permit non-payment of benefit for the first 3 days termed *waiting days*.

Although there is no standard pattern, it is evident from the examples in Table 15.8 that a number of countries provide quite high rates of TDB (for example, 80 per cent of recent earnings in Japan, Malaysia and New Zealand, 90 per cent in the Philippines and 100 per cent in China). Duration is extensive to allow for the serious cases for which the final medical assessment cannot be made for periods of months or even years. At some point if the beneficiary is still incapacitated for work a determination of permanent disability has to be made by a medical board, even if it is provisional. However, some

countries consider that it is inadvisable to award pensions prematurely because it is difficult to interest disabled persons in rehabilitation if they feel that restoring work capacity will have negative impact on their entitlement. Table 16.9, shows a broadly similar pattern in the employer liability schemes on rates and duration.

The workers' compensation benefits may be payable after up to 3 waiting days to avoid the expense of small claims as well as to deter possible malingering. Some minor cases do occur involving just 2 or 3 days absence from work and some medical treatment and these do not qualify for compensation under the workers' compensation scheme on the assumption that the loss of wages is not likely to cause hardship. However, if after excluding the 3 days from the first benefit payments, the incapacity continues for some time, the beneficiary has received only a proportion of his wages and it is possible that the loss of the first 3 days is more keenly felt. Also, if the insured person returns to work after medical certification that he has recovered, but he suffers a relapse after a few weeks, the question of again applying the waiting days has to be resolved. The usual practice in some of the social insurance schemes which have adopted the *waiting days* principle is:

- Where the incapacity lasts several days then pay the 3 days retrospectively, and
- Separate periods of TDB for the relevant accident within 8 weeks of each other are considered to be linked for the purpose of not applying the waiting days rules on the second occasion.

(ii) *Permanent disability benefits Rating and duration of the PDB awards*

Assessments of permanent disability are made by medical boards established by the workers' compensation schemes. They are guided by the schedule of disabilities specifying the degrees of loss of earnings capacity attached to the legislation. The decision also states whether the condition is truly permanent or should be reviewed after a certain period, such as 2 years. In the latter case, the award would be for 2 years and the medical board would review the case in time to decide about the continuation of the award and whether this should be at the same or a different rate. Otherwise, the assessment may be for life.

⁹⁵ The Social Security (Minimum Standards) Convention, (No. 102 of 1952) and the Employment Injury Benefits Convention (No. 121 of 1964).

Most of such decisions are on relatively minor conditions with ratings below 10 per cent but all types of case occur over time from 1 to 100 per cent. The system of benefit rates is usually based on the level stipulated for permanent total disability (PTD) with lower percentages entitled to that percentage of the PTD rate. Therefore if 70 per cent of recent earnings is payable for 100 per cent disability (PTD), the amount for permanent partial disability (PPD) of 50 per cent would be 35 per cent of recent earnings. Where the medical board certifies that recipients of PTD require the constant help or attendance of another person, the benefit will be increased by a constant attendance allowance such as 25 per cent of the PTD rate.

The key issue is whether the benefit for a long-term contingency is in the form of a pension, as prescribed in ILO Conventions such as Convention Nos. 102 and 121 as a more effective method of income protection, or a lump-sum. Whilst social insurance schemes usually provide pensions protection, employer liability schemes pay lump-sums, as is evident from a review of Tables 16.9; pensions are payable in China, India, Japan, Malaysia, Pakistan, Philippines, and Thailand (but in the latter case these pensions are not payable for life), whilst New Zealand and Samoa are the exception as they provide lump-sums, and all of the Employer Liability schemes pay the benefit in this manner. Countries providing pensions undertake to maintain their value through periodical increases. Since the usual outcome of lump-sum payments is that they are consumed relatively quickly, the persons concerned are left without adequate support and may become dependent on family support or social assistance.

Commutation of low level pensions An exception to the principle of pensions for permanent disability is made in the case of slight permanent disability where the benefits may be paid in lump sums, calculated on actuarial principles. Lump-sum grants for the pensions below a level such as 20 to 30 per cent are calculated according to the duration of the assessment where this is provisional or for life, in which case the payment is determined according to the actuarial tables giving the present value of the benefits.

(iii) ***Benefits in respect of deaths from an employment injury***

In the case of death from an employment injury, funeral benefits are paid in the form of one time grants and survivors are provided with pensions in social insurance schemes and lump-sums under employer liability legislation. The basis for benefit is usually the amount or entitlement of PTD payable to the deceased or to which he/she would have been entitled had a claim been made to PTD. Issues arise on the eligibility of dependant relatives and schemes necessarily design such benefits in accordance with family structures. Whilst widows are accepted as a priority beneficiary some schemes restrict widowers rights by imposing additional conditions such as that he is disabled and unable to work. Children may be entitled up to the age 18, or 21 if still undergoing full time education, usually with no age limit for disabled children. Parents are included in some schemes only if the prime beneficiaries have not received the full entitlement of 100 per cent of the amount of PTD the deceased was receiving or would have received if this had been claimed prior to death. The widow(er)s may receive 40-50 per cent and children 20-30 per cent and such awards change as children reach the maximum age allowing other persons to qualify.

Examples of survivor's pensions in Table 16.8 show variations in the actual rates allocated to spouses and children within the framework of the distribution of the PTD rate. However, the schemes in the Philippines, Samoa and Thailand also involve rights to lump-sums and Thailand limits the duration of the survivors pensions to 8 years. All of employer liability schemes included in Table 16.5 pay lump-sums only and this is the pattern found in such schemes elsewhere due to lack of funding for pensions. This issue is of special concern to widows and children who predominate amongst survivors for whom a guaranteed regular payment may ensure a reasonable standard of living and allow children to remain at school.

16.9 Financing of the scheme

16.9.1 Financial systems

Workers' compensation schemes require two financial systems. For the *medical and short-term cash benefits (TDB)* the annual assessment or *pay-as-you-go* financial system is appropriate.

Under this system the resources raised year by year from contributions and other sources balance the expected costs year by year. In practice, a contingency reserve is needed against unforeseen changes in expenditures or falls in income. This may be 6 months average benefit expenditure for TDB and medical care.

For *long term benefits*, the principle is full funding of liabilities in the year in which these are incurred through the system of constituent capitals. This means that funding of all future payments for disability pensions and grants, funeral grants and dependant pensions awarded in a year is secured in that year; this is a different approach to the financing of old-age pension schemes and ensures that these costs are borne by the currently contributing employers and are not passed on to future contributors. Consequently, this system takes into account the future costs of pensions and lump-sum payments expected, according to projections, to be awarded each year.

Another responsibility of the scheme is to increase pensions periodically in order to maintain their value. These requirements are taken into account in the actuarial valuation.

An employment injury insurance fund should be established with contingency and technical reserves to receive all income from employment injury contributions and investments, and to finance expenditures on employment injury benefits and administration. An actuarial valuation of the scheme should be made at the original design stage and at regular intervals in order to assess the actual experience and adjust projections for the future.

16.9.2 Contribution systems

Since employers are liable for such compensation they are required to finance workers' compensation schemes in almost all countries (however, Samoa introduced employee contributions of 1 per cent of earnings in 2003) but the question arising is whether these employer premiums should be uniform, as in other branches, or risk-rated as in private insurance. The main argument for uniform rates is that in comprehensive schemes covering a wide range of employees for several or all nine social security contingencies, the risks should be reasonably well balanced over time, and, furthermore, that risk-rating may not be a reliable

indication of future experience and cannot easily be applied to smaller firms. The proponents of risk-rating contend that this system provides strong incentives for strengthening safety measures and accident prevention, and also avoids the price distortion which results from low-risk industries subsidising high-risk industries.

Amongst social security schemes opinion seems to be sharply divided as those collecting uniform contributions argue that the issue of prevention and occupational safety and health is the responsibility of another part of the government machine and it is enough to supply information and statistics on accidents to these authorities whilst the schemes maintaining records of accidents and claims in order to apply experience rating at 3 yearly intervals point to evidence of the impact of this system. Table 16.5 contains information on 13 schemes of which 6 use uniform rates (India, Malaysia, Philippines Samoa and Vietnam) and 7 prefer differential rates (China, Indonesia, Mongolia, New Zealand, South Korea and Thailand).

The risk and experience rating system is practiced by insurance companies active in workers' compensation insurance, which typically charge approximately 0.20 per cent of payroll at the lowest risk level for activities such as office administration and over 10 per cent for those enterprises in sectors such as logging and construction. The dilemma is that the alternative would be to propose levying uniform contribution rates such as 1 per cent of earnings, in order to raise adequate resources, which would involve enterprises in less risky sectors paying higher contribution rates than under private insurance and those in the more risky sectors paying less. This would be resisted by employers in general and is contrary to strategies to provide incentives to employers to vigorously pursue accident reduction.

The system uses industry codes to determine the basic contribution for each enterprise according to the industrial sector it belongs to. For example, Thailand has listed 131 such codes. The industry codes should reflect the average experience of all enterprises in an industrial category and the second element is the merit or experience rate of individual enterprises which is determined over a 3 year period and applied in year 5 and may result in a reduction, increase or no change in the contributions assessment. A

description of the Japanese experience rated system is given in the following box.

Box 16.1 An experience-based premium system in the workers' compensation insurance of Japan

*In Japan, the premium of the Workers' Accident Compensation Insurance is set by type of industry. Currently, the premium of workers' compensation varies from 0.5% to 12.9% in 51 industry categories. The premium is reviewed every 3 years based on the performance during the preceding 3-year period. To provide employers with incentives for accident prevention, an experience-based system (called the merit system) is implemented. Under this system, the premium of an individual establishment can be adjusted upwards/downwards within the range of 40%. Those qualified for the merit system are medium and large sized enterprises (e.g. establishments with more than 100 workers, or construction projects whose value is more than JPY 120 million – about USD 1.1 million). Specifically, for each establishment, the following **balance ratio** is computed:*

$$\text{Balance ratio} = \frac{(\text{benefit payment during the last 3 years})}{(\text{premium during the same period})}$$

If this balance ratio is less than 0.75, then the premium (set by type of industry) is gradually reduced by up to 40 per cent. Contrary, if this ratio is more than 0.85, then the premium is increased by up to 40 per cent. This adjustment is applied to the premium in respect of work-related benefits. (A uniform premium is applied in respect of the commutation accidents, welfare schemes and administrative costs.) The adjusted premium is applied for the next fiscal year (e.g. if the period of balance ratio is 2002-2004, then the adjusted premium is applied for 2006). Moreover, small and medium sized enterprises which take certain measures on occupational safety and health can apply for the special merit system, which can adjust the premium within the range of 45 per cent.

In practice, only a limited percentage of enterprises apply for the merit system. Statistics in 2002 show that 87,428 (or 4.4 per cent) of 1,992,101 establishments applied for the merit system. Of these, 72,698 establishments (83.2 per cent) had the premiums reduced, 12,949 (14.8 per cent) had the premiums increased, and 1,781 (2.0 per cent) had the premiums unchanged. In both cases where the premiums changed, about half attained the maximum adjustment rate at 40 per cent.

Not all social security schemes have the administrative capacity to maintain detailed records and assess the claims experience of each employer. However, Thailand is an example of a developing country which launched its social insurance scheme for employment injuries in 1975 with the experience rating system and has reduced the contribution rates from over 4 per cent to between 0.2 to 2 per cent (recently reduced to 1 per cent for economic reasons). In certain other countries for example, Mongolia, the risk categories have been simplified into 3 for which the contribution rates are 1, 2 and 3 per cent respectively. This is intended as a broader risk rating system which is easier to administer whilst still providing penalties and incentives with the aim of reducing accident frequencies.

16.10 Accident prevention and rehabilitation

16.10.1 Accident prevention

Whilst workers' compensation schemes providing medical care and income protection after work-related accidents occur may wish to

support and encourage accident prevention for such reasons as:

- Prevention is a better service to insured persons than compensating them after the event;
- Fewer work interruptions contribute to higher productivity, and
- Scheme costs are reduced.

With respect to the prevention, there are about 70 ILO Conventions and Recommendations dealing with Occupational Safety and Health (OSH) matters. The following is a list of the major Conventions on OSH.

Table 16.4 ILO Conventions concerning occupational safety and health

Convention No.155	Occupational Safety and Health Convention, 1981
Convention No.161	Occupational Health Services Convention, 1985
Convention No.170	Chemicals Convention, 1990
Convention No.174	Prevention of Major Industrial Accidents Convention, 1993
Convention No. 81	Labour Inspection Convention, 1947

The Occupational Safety and Health Convention (No. 155 of 1981), together with its accompanying Recommendation (No. 164) and Protocol of 2002, prescribe the progressive application of comprehensive preventive measures and the adoption of a coherent national policy on occupational safety and health, while establishing the responsibility of employers for making work and equipment safe and without risk to health, as well as the duties and rights of workers. Particularly relevant to workers' compensation is the protocol to the convention (adopted in 2002), which stresses the need to strengthen recording and notification procedures of occupational accidents and diseases. The accident statistics from workers' compensation schemes provide useful information for the analysis of the national OSH situation, as explained below.

The Occupational Health Services Convention (No. 161 of 1985) and its accompanying Recommendation (No. 171) stress that occupational health services are entrusted essentially with preventive functions and responsible for advising employers, workers and their representatives on maintaining a safe and healthy working environment, as well as on the adaptation of work to the capabilities of workers. The emphasis of these instruments are placed on the roles, use of resources and cooperation rather than on administrative structures.

The Chemicals Convention (No. 170 of 1990) and its accompanying Recommendation (No.177) represent international efforts to upgrade the national measures and harmonize regulatory standards. They emphasise the need to establish a coherent national policy of chemical safety ranging from the classification and labelling of chemicals to the control in all aspects of the use of chemicals. Particular emphasis is placed on roles and responsibility of the competent authority, suppliers and employers, as well as duties and rights of workers.

The Prevention of Major Industrial Accidents Convention (No. 174 of 1993) and its accompanying Recommendation (No. 181) aim to protect workers, the public and the environment from major industrial accidents, in particular through the prevention of major accidents involving hazardous substances and the limitation of the consequences of such accidents. It applies to major hazard installations with the exception of nuclear installations and radioactive

materials processing, military installations and transport outside the site of an installation other than pipeline.

In addition to the Conventions and Recommendations, the ILO has prepared a series of codes of practice relating to various sectors of economic activity and various types of dangerous equipment or agents. These codes of practices are intended to assist governments, employers' and workers' organizations in drawing up national regulations and guidelines, work regulations and collective agreements.

Accident prevention normally is funded from general revenues or special levies and employers may object to use of their contributions for this purpose; furthermore, the scope for action by workers' compensation schemes is limited where another government institution, such as the factory inspectorate, has the legal responsibility for OSH. In these circumstances, the workers' compensation schemes have the role of reporting accidents and supplying statistics to the OSH authority. It is vital that such data distribution arrangements work efficiently since accident prevention strategies need to focus resources where most needed. Japan is aware that over 90 per cent of occupational accidents occur in small and medium size enterprises (less than 300 workers) which employ at least 80 per cent of the workforce; furthermore the workplaces with less than 50 employees account for 70 per cent or more of the total accidents. Prevention tactics can be devised accordingly.

This becomes an issue where workers' compensation schemes are concerned about adverse trends and slower progress than expected in reducing workplace hazards but have little scope under the prevailing legislation for interventions to improve strategic planning and implementation of national action plans in this field. Another dimension is the inclusion of commuting accidents as accident prevention necessarily becomes broader in scope raising a new set of issues in the field of traffic safety. For example, schemes regularly receiving numerous claims in respect of motor cycle accidents may consider that corrective and targeted actions are urgently needed (regarding wearing of crash helmets, checking for unlicensed drivers, speeding checks etc) but the responsible authorities have resource and other constraints that delay progress; concerns may arise that as the proportion that are accepted as commuting

accidents receive medical care and financial compensation, this reduces the pressures for decisive actions to minimise the problem. In such situations the Governing Boards would be justified in examining ways in which the schemes' roles in accident prevention could be increased and the most effective ways of achieving significant improvements.

In some instances, the workers' compensation legislation permits the institution to allocate some resources for cooperation with the main OSH authority. For example, the Industrial Accident Compensation Insurance Act of the Republic of Korea allows fund transfers from the Industrial Accident Compensation Fund to the Industrial Accident Prevention Fund for the purpose of prevention. Malaysia is another case in point and the governing board of the social insurance system authorises an annual budget for this purpose to be spent on awareness campaigns and targeted measures to improve safety and health amongst the groups most at risk. Whilst the Department of Work Safety and Health is responsible for accident prevention its activities are supervised by the Social Security Organisation which has the role of facilitator⁹⁶. Thailand also allows the workers' compensation scheme to support prevention. The Workmen's Compensation Act stipulates in Article 28 that 22 per cent of the interest earned on investment of its reserves may be diverted to OSH purposes and for support for rehabilitation programmes.

As regards occupational diseases, a precaution stipulated in some countries (for example, in Japan and Pakistan) under labour protection legislation is a requirement for employees applying for jobs in sectors considered as posing health risks to undertake pre-employment examinations as a condition of employment, and also to require employees in such industries to have periodical examinations in order to make early diagnosis of serious diseases.

Countries using risk-rating contribution rates can make some impact on accident prevention due to the system of financial incentives and penalties. In Germany contribution rates have been reduced from nearly 5 per cent in 1960 to an average of

1.31 per cent in 2003.

A recent survey by the ISSA⁹⁷ Technical Commission on Insurance against Employment Accidents and Occupational Diseases brought out examples of an increasing interest in expanding the area of action beyond medical care and cash benefits to encompass prevention in full or to an extent.⁹⁸ In Quebec, reform of the workers' compensation scheme was initiated in 1990 to further prevention in the face of rises in the incidence of serious accidents and compensation costs; intensive prevention drives were initiated with stronger incentives in the system of premium determination for smaller businesses to form mutual help groups for establishing voluntary prevention groups. A similar initiative in Ontario resulted in a new legal basis for a stronger focus on prevention and the establishment of the Workplace Safety and Insurance Board to implement the law. Zimbabwe, which is the only African country to integrate compensation and prevention measures, established the Accident Prevention and Workers' compensation Scheme in 1990 to give a higher priority to prevention.

It is observed that governance of such combined schemes is given an impetus since both employers and employees have a keen interest in reducing accidents and readily cooperate in this field. The conclusion drawn was that the most effective approach was to integrate prevention with compensation in one institution, as in these examples.

Germany is a leading exponent of the integrated system for insured persons but in this instance it extends also to extensive rehabilitation. There are 35 statutory accident insurance funds active in sectors of agriculture and commerce which operate under the bipartite management of employers and workers. These funds are empowered to enact accident prevention regulations and to inspect enterprises. Their mandate is:

- Firstly to prevent accidents;
- When accidents do occur, to restore health and working capacity, and
- Finally, to provide benefits.

⁹⁶ "Problems and challenges of statutory accident insurance schemes relating to occupational diseases: Reporting, recording and statistics" Stefan Zimmer, Head, International Social Policy, National Federation of Industrial Employment Accident Insurance Funds, ISSA Conference Towards sustainable social security systems, Limassol, Cyprus November 2003.

⁹⁷ ISSA International Social Security Association

⁹⁸ Information in this part is primarily from "Conditions for implementation of reform of a work injury scheme", Joachim Breuer, ISSA Conference Towards sustainable social security systems, Limassol, Cyprus, November 2003.

The funds collect detailed statistics to pinpoint the areas for special attention, carry out periodical inspections of enterprises in enforcement of the accident prevention regulations, and hold seminars (18,000 to 20,000 per year) to disseminate up-to-date knowledge of regulations and new techniques to be employed in this sphere.

Australia provides another model for integration of prevention and compensation. A new body the Australian Safety and Compensation Council was recently established which, in replacing 6 different OSH regimes, is expected to further focus national efforts on consistency and also provide a national forum for the first time on workers' compensation. This change is important for the implementation of the national OSH strategy for 2002-2012 which sets targets for the progressive reduction of workplace injuries and deaths over this period.

As explained in Appendix 16B, Samoa's scheme accords first place to safety promotion and accident prevention and has developed strategies and performance standards in its Corporate Plan for 2003-2005 in this sphere of its work. The New Zealand Accident Compensation Commission has devised an injury prevention strategy for the country as a whole with the objective of *a safe New Zealand becoming injury-free*. This is envisaged as a strategic framework for injury prevention in society in general. ACC drew up an Implementation Plan from June 2004.

16.10.2 Rehabilitation

Medical care provided by workers' compensation schemes may be confined to the minimum necessary for treatment of the injury, which is the basic approach of many employer liability schemes, or have higher objectives more consistent with the concepts underlying the provisions in the Social Security (Minimum Standards) Convention, No.102 of 1952 that the scheme should assume responsibility for *maintaining, restoring or improving the health of the person protected and his ability to work and to attend to his personal needs*. Whilst social insurance schemes tend to pursue the higher objectives, some may, for lack of resources confine rehabilitation to medical rehabilitation, including the supply and replacement of artificial limbs and appliances. Other countries are able to cooperate with vocational rehabilitation

institutions by providing vocational guidance, arranging attendance at courses and paying allowances for the duration of the training. New Zealand places considerable emphasis on rehabilitation and Japan has established 39 hospitals across the country which operate under the Labour Welfare Service to provide medical, vocational and social rehabilitation. Other Asian countries such as Malaysia, Philippines and Thailand are actively developing comprehensive rehabilitation systems. Extensive rehabilitation is the norm amongst the long-established schemes in European countries, including Austria, France, Germany, Spain and UK and in Canada and the USA.

16.11 Reform and development of workers' compensation schemes

16.11.1 Planning of reforms

This Part addresses the issues of the reform and development of Worker's Compensation schemes against the background of growing and widespread interest, to a greater or lesser extent, in all types of countries in strengthening their systems of workers' compensation protection not only in respect of the central responsibility of providing adequate compensation in conformity with the relevant ILO standards but also in increasing support through one means or another for the promotion of occupational safety and health.

Previous sections of this study have elucidated the concepts, principles and relevant ILO standards of workers' compensation insurance and described the structure of employer liability and social insurance schemes with examples drawn from both developed and developing countries. It is evident from the information provided that workers' compensation insurance in numerous countries is undergoing processes of reform and modernisation in order to keep pace with and adapt to the changing world of work, new national priorities and evolving concepts of employment injury protection. However, these trends are less noticeable amongst Pacific Island states which still rely on employer liability schemes although in certain countries some stakeholders of existing schemes which have functioned for many years are conscious of the need for changes and upgrading but have lacked information on policies and strategies in similar countries which could serve as guidelines for policy formulation and technical planning. This

is in recognition of the fact that a pre-requisite for such planning exercises is an understanding of the objectives and experiences of other countries, including countries from the same region, in order to gain insights into the most suitable reform strategies. This study aims to contribute to this process. In addition, the findings of a recent survey conducted by the ISSA Technical Commission on Insurance against Employment Accidents and Occupational Diseases provide useful information which may be taken into account in determining the most suitable methods of action to effect the desired types of change.⁹⁹

The ISSA survey showed that in addition to the dissemination of information on developments in this field the emphasis was on providing comprehensive rehabilitation and integrating prevention with the provision of compensation, as already discussed in section 9 above. The remaining three points are of special importance in any strategies for developing reform proposals:

- Involvement and participation of stakeholders,
- Administrative pre-requisites and specialisation of the insurance scheme, and
- Differential contribution rates.

16.11.2 Involvement and participation of stakeholders

From the information provided by responding countries, it was clear that the process of formulating reform objectives and strategies required the full participation of the social partners at all stages. The main point emerging from the examples provided was that involvement of stakeholders ensured that a consensus was achieved and a thorough preparation of the scheme and the legislation, which became the foundation for a smooth conversion and changeover to the new measures. Although the extensive consultations took time in the countries involved, the conclusion was that this ensured a speedier implementation phase and overall a sound basis for the sustainability of the new scheme.

The problem to be confronted in most countries is that employer liability schemes may be

operating with little or no involvement of the social partners except occasionally at a forum such as a Labour Advisory Board or its equivalent. Where a contributory social security scheme is in force its governing board has no jurisdiction over workers' compensation insurance and therefore some means has to be found, such as by setting-up an ad hoc working group or committee, to overcome this obstacle to close and continuous involvement of the stakeholders in the planning of any reforms.

16.11.3 Administrative prerequisites and specialisation.

The survey confirmed that adequate statistics, well-trained personnel and an effective administrative system were essential to planning and implementing a new scheme. One example is that the changeover from an employer liability scheme requires the registration of employers and employees and establishment of data bases to be followed by the collection of contributions. These basic functions must run efficiently if the scheme is to have a sound foundation. The provision of medical care under workers' compensation insurance is facilitated where social health insurance schemes are operating, and any existing systems for payment of cash benefits and including pensions could be utilised by a new scheme so the existence of such working systems would present options for bringing a new scheme within the auspices of the existing social security system as a separate branch with its own autonomous funds.

However, on this point, the survey brought out views that workers' compensation is complex and specialised and best administered as a separate scheme but that this is not necessarily feasible in all instances, particularly in developing countries or those in transition. In such situations a possible solution would be to set up a separate branch to function within the framework of the social security system in as an integrated a manner as possible; the use of common databases, the contribution collection systems and benefit payment systems are examples of where savings and efficiency gains could be achieved

In making such decisions the views of stakeholders and the costs of each option should be taken into account. One important consideration is that the major scheme is invariably the national provident fund which

⁹⁹ *Conditions for implementation of reform of a work injury scheme*, Joachim Breuer, ISSA Conference Towards sustainable social security systems, Limassol, Cyprus, November 2003.

comes under Ministry of Finance in most countries whilst employer liability schemes are the responsibility of the Ministry of Labour or its equivalent. Since close coordination with OSH departments under the labour departments is essential, the first option should be to establish any new scheme under the auspices of the Ministry of Labour, which could facilitate the transition from the existing scheme to its successor.

16.11.4 Differential contributions

The report of the ISSA Technical Commission contains information on trends in various countries to use risk and experience rating of contributions to influence employers to increase efforts to reduce accidents and risks of contracting occupational diseases. It should be noted that in June 2003, the International Labour Conference in its discussions of ILOs standards-related activities in the area of occupational safety and health and concluded that national OSH programmes should include certain key aspects including occupational injury and disease, compensation and rehabilitation systems that use experience rating and incentives.

However, as explained in the section on financing, this presents challenges to developing countries which have limited experience of the techniques involved in establishing and administering risk and experience rating contribution systems. Consequently, this is a major issue for countries aiming to reform their existing schemes and make prevention an important objective of the new system, together with high standards of compensation.

The risk and experience rating system is practiced by insurance companies active in workers' compensation insurance which typically could charge approximately 0.20 per cent of payroll at the lowest risk level for activities such as office administration, and over 10 per cent for those enterprises in sectors such as logging and construction. The dilemma is that the alternative would be to propose levying uniform contribution rates such as 1 per cent of earnings, in order to raise adequate resources, which would involve enterprises in less risky sectors paying higher contribution rates than under private insurance, and those in the more risky sectors paying less. This would be resisted by employers in general and is contrary to

strategies to provide incentives to employers to vigorously pursue accident reduction.

16.11.5 Conclusions

The information in this study may assist Pacific Island countries to develop their interest in improving long-standing schemes based on employer liability principles by enabling them to establish clear policy guidelines for reform. This can be best accomplished by extensive social dialogue based on improved understanding on what are feasible and affordable objectives in this field. As illustrated in this study, social insurance principles of pooling risks and finances in separate autonomous funds has enabled countries with similar social and economic conditions to those prevailing in the region to extend coverage and the scope of protection and to upgrade compensation benefits so that victims of work-related accidents can receive comprehensive medical care, including rehabilitation, and better designed short and long-term cash benefits, including pensions, which are more responsive to gender-specific needs.

With an autonomous fund conserving all contributions paid by employers for the purposes of the scheme and under the control of a tripartite board, thus strengthening governance, it will be possible to allocate some resources to accident prevention and support for occupational safety and health activities, assuming that the legislation has provided for this as an objective of the scheme, as well as to institute close coordination between the two systems. The example of Samoa which has operated a wide ranging scheme based on social insurance principles for 25 years may be of special interest to other countries in the region.

One of the key challenges to be met in reform of workers' compensation schemes will be how to institute suitable and feasible contribution systems and technical assistance may be required to develop capacities in this and other aspects of workers' compensation insurance

Progress in this field in various countries would be consistent with the concept of Decent Work as involving the aims of enhancing the coverage and effectiveness of social protection for all and ensuring that Decent Work is safe work.

Appendix to Chapter 16 – International experience

16A Summary of employment injury schemes in selected countries in Asia and the Pacific

Table 16.5 Coverage and contribution rates for workers' compensation schemes in selected countries

Country & date of first law*	Scope of Coverage	Contribution Rates
China 1951	Employees in state-run enterprises and some collective enterprises.	Employers pay differential rates (0.5%, 1.0% and 2.0%) averaging 1% of payroll.
India 1923 (Employer Liability) 1948 (SI)	Employees earning less than INR 7,500 per month in power-using enterprises with 10 or more workers.	Employers pay 4.75% of earnings for the sickness, maternity and employment injury scheme and workers 1.75%
Indonesia 1939 (Employer Liability) 1992 (SI)	Establishments with 10 or more workers or a monthly payroll of IDR 1 million.	Employers pay according to risk in industry 0.24 to 1.74% of payroll.
Japan 1911 (Employer Liability) 1947 (SI)	Employees in industry and commerce voluntary coverage for agricultural, fishery and forestry sectors with less than 5 workers and special systems for seamen and public service.	Employers pay from 0.55% to 13.5% of payroll according to 3-year accident rate.
Malaysia 1929(Employer Liability)1969(SI)	Employees earning less than MYR 2,000 per month unless already covered when earning less	Employers pay uniform rates of 1.25 % of payroll
Mongolia 1993 (SI)	All employees. Voluntary coverage of the self-employed.	Employers pay 1, 2 or 3% of payroll according to risk & claims experience. Self-employed -1%
New Zealand 1908(Employer Liability) ACC (1974)(SI)	All insured persons including children employees and non-working adults, visitors and nationals travelling abroad	Work injury benefits financed by employers premiums rated according to risk, and earmarked taxes (gas and vehicle licence fees). For non-work injuries, employee contributions and general revenues finance benefits.
Pakistan 1923 (Employer Liability) 1963(SI)	Employees in selected industries and establishments with a minimum of 5 workers earning PKR 3,000 per month or less.	Employers pay 7 % of payroll for the sickness, maternity and employment injury scheme.
Philippines 1974 (SI)	All employed persons including those recruited to work abroad and domestic workers	Employers pay uniform rates of 1% of payroll.
Samoa 1960 (Employer Liability) 1978(SI)	Employees for work-related accidents and entire population for motor vehicle or boat accidents	Employer and workers each pay 1% for work-related accidents. Earmarked tax of WST 0.05 per gallon of motor fuel for vehicle and boat accidents.
South Korea (Rep. of) 1953 (Employer Liability) 1963 (SI)	All employees. Voluntary coverage for small-scale construction projects agricultural, fishery and forestry sectors with less than 5 workers, domestic employees & the self-employed.	Employers pay from 0.4 to 31.9% of payroll according to risk in industry (average 1.49%).
Thailand 1972(SI)	Employees in firms with 1 or more worker.	Employers pay from 0.2 to 2.0 % of payroll (presently 1% maximum)
Vietnam 1929(Employer Liability),1995(SI)	State employees and non-State enterprises with 10 or more workers, foreign invested firms, and the industrial and processing zones.	Employers' total contributions for sickness, maternity and Employment Injury are 5%.

Main Source: Social Security Programs throughout the World 2002(Social Security Administration of USA.)

*Employer Liability-employer liability SI- social insurance

Table 16.6 *Selected employer liability schemes for workers' compensation*

Country and date of first law	Scope of Coverage	Compulsory or Voluntary Insurance
Brunei 1957	All employees	Compulsory
Fiji 1965	All employees and apprentices.	Voluntary
Hong Kong 1953 (Employer Liability) 1971(Social assistance)	All employees.	Compulsory
India 1923	Manual workers in employments scheduled in 1923 Worker's Compensation Act.	Voluntary
Indonesia 1939	Employees not covered by social insurance scheme.	Voluntary
Kiribati 1949	Employees earning AUD 4,000 per year or less.	Voluntary
Pakistan 1923	Employees in industrial establishments with 10 or more workers earning PKR 3,000 per month or less who are not covered by the social security scheme are covered by the 1923 Worker's Compensation Act.	Voluntary
Papua New Guinea 1958	All employees, including public employees.	Compulsory
Singapore 1933	All manual labour, except domestic staff, casual employees, family labour and salaried workers earning less than SGD 1,600 per month.	Compulsory
Solomon Islands, 1952	Employees earning SBD 4,000 per year or less.	Compulsory
Sri Lanka 1934	All workers except the police and armed forces.	Voluntary

Main Source: Social Security Programs throughout the World Asia and Pacific 2002 (Social Security Administration of USA).

Table 16.7 *Definitions of employment injury-selected countries*

Country	Main Definition
Germany	Accident injury occurred in the enterprise and/or in connection with an occupation depending on the enterprise on the basis of a contract of employment or any other insured activity.
Greece	Accident injury occurred because of and during employment.
France	Any injury occurred as a result of or in connection with work, regardless of its cause.
Ireland	Personal injury incurred as a result of an accident at work, including diseases caused by such accidents or a prescribed occupational disease contracted in the course of insurable employment.
Italy	Employment injury produced by violent cause at work.
Sweden	Every accident or illness related to the working situation. Proof system. An injury is accepted as a work injury if it is clear that the person has suffered an accident or some other harmful influence at work. The injury must be presumed to be a result from the harmful influence if there are stronger grounds for such a presumption than the contrary.
UK	Personal injury caused while a person is at work or while he or she is working.
Malaysia	A personal injury to an employee caused by accident or an occupational disease arising out of and in the course of his employment in an industry to which this Act applies.
Thailand	Physical or mental injury or death suffered by an employee as the work employment or in the course of protecting the interest of the employer or according to the commands of the employer. Illness means illness suffered by an employee as the result of work caused by diseases incidental to nature or the condition of work

Main sources: MISSOC and national legislation

Table 16.8 Benefits for workers' compensation - social insurance schemes

Country	Medical	TDB	PDB	Survivors
China	Medical care, surgery, nursing, medicines, appliances, transport & hospitalisation.	100% of wage until recovery or permanent disability determined.	75-90% of wage if totally disabled. Disability allowance of 6 -24 months wages For partial disability from 10-30% of wage Minimum pension set locally.	40% of wage for spouse, 30% each for other dependants lump-sum 48-60 month's wages funeral grant 6 month's wages.
India	Treatment, surgery, hospitalisation, medicines, artificial limbs, & other appliances.	Benefit is payable from day 4 until recovery according to wage classes average about 70% of earnings.	Total disability ranges from rupees 19.60 to 175 per day according to wage classes. Partial disability rate is percentage in proportion to % loss of earnings capacity.	Widow: 60% of insured's TDB entitlement (average 70% of earnings) Orphan 40% if under age 18 or until daughter marries. Maximum of all pensions is 100%of TDB.
Japan	Medical care, surgery, nursing, hospitalisation medicines, dental care, appliances, & transportation.	Employer pays 60% of wage for first 3 days. TDB is payable from day 4 for 18 months maximum at 60% of average daily wage over last 6 months plus a Labour Welfare supplement of 20% of average daily wage subject to minimum benefit rate. TDB continues unless severely disabled when pension payable according to degree of disability.	For grades 1 to 7 disability, pension is 100 of average daily wage multiplied by degree of disability. For grades 8-14 lump-sum benefit of between 56 and 503 times average daily wage. Carers of severely disabled receive allowances.	Annual pension equal to average daily wage over last 6 months multiplied by between 153 and 245 days according to number of survivors. Eligible survivors are widow, widower, children, grandparents, grandchildren and dependant brothers and sisters (all except the widow must meet age or disability requirements).
Malaysia	Medical care, surgery, hospitalisation medicines,, appliances & medical and vocational rehabilitation.	80% of average daily wage payable after 4 days waiting period (waiting days payable if incapacity lasts more than 4 days).	90% of average daily wage if totally disabled. Partial disability is percentage of full pension according to degree of disability Lump-sums payable if disability less than 20 %. Constant attendance allowance of 40% of pension.	Full benefit is 90% of average daily wage payable at 60% to widow or widower, 40% to orphans (60% for full orphans) under age 21 or completion of 1 st degree no age limit for disabled child. If none of above parents siblings and paternal grandparents, if previously the insured's dependant.

Continued on next page

Table 16.8 Benefits for workers' compensation - social insurance schemes (Cont)

Country	Medical	TDB	PDB	Survivors
New Zealand	Full range of medical care for which a minimum payment is required. Social rehabilitation without limits and vocational training for up to 3 years.	80% of gross earnings payable until return to work. Minimum benefit is NZD 256 per week or NZD 204.80 if under age 18. Maximum benefit is NZD 1,365.05 per week.	If 10% or more impaired, a lump-sum ranging from NZD 2,500 to NZD 100,000.	Survivor's pensions are calculated from 80% of gross earnings. 60% for widow(er)'s pension - .Orphan- 30% for each child under age 18 or 40% if full orphan. 20% for other dependants Grant NZD 4,824.59 for spouse; NZD 2,412.30 per child or other dependant.
Pakistan	Social security clinics and hospitals provide general medical care, specialists, hospitalisation surgery and transportation.	60% of earnings, 100% in Punjab and Sindh payable after 3 day waiting period (waived in Punjab) for up to 180 days.	75% of earnings (100% in Punjab) and percentage for partial disability according to loss of earnings capacity.	60% of total disability pension for widow or needy disabled widower. Orphans under age 16 - 20% or 40% for full orphan. If no spouse 20% for dependant parent. Total payable for all pensions is 100% of PTD.
Philippines	Medical, surgical and hospital services, appliances and rehabilitation.	90% of average wage in best 6 months out of last 12 months from first day for up to 240 days in a calendar year. Minimum 10 pesos per day Maximum PHP 200 per day	115% of the sum of 300 pesos plus 20 % of average monthly credited earnings for each year of contribution in excess of 10, or 115% of 40% of average monthly credited earnings, or 2000 pesos, whichever is the higher. Plus a supplement of the higher of 10% of pension, or PHP 250, for each of 5 youngest children under age 21. Partial disability is PTD rate but payable for periods related to degree of incapacity. Minimum pension is PHP 2,000 per month.	Survivors entitled to 100% of PTD plus dependants supplement of 10% per child for 5 youngest children under age 21. The insured's monthly pension is payable for some categories of survivor for up to 60 months. The grant must be not less than PHP 120,000 in total.
Samoa	Reasonable medical expenses for first aid, dental care, transport, surgery and hospitalisation, plus artificial aids and rehabilitation.	70% of earnings subject to minimum of WST 35 per week up to maximum of WST 400 per week. Maximum duration is flexible.	For disability of 80% or more: a pension of 70% of earnings for life for 100% disability and proportionate amounts for lower assessments. For disability lower than 80%: lump-sum of up to WST 8,000 according to assessed degree of incapacity.	A lump-sum of WST 20,000 to dependants plus weekly compensation of 70% of wages for up to 4 years subject to a WST 200 a week maximum.
Thailand	All necessary medical, surgical and hospital services up to maximum cost of THB 35,000 or up to THB 50,000 in special cases.	60% of wage is payable after 3 days (payable later if incapacity lasts more than 3 days) Minimum monthly benefit is THB 2,000 and maximum is THB 9,000.	PTD is 60% of average monthly wage payable for 15 years. For partial disability 60% of earnings payable for up to 10 years according to degree of incapacity or as a lump-sum.	60% of earnings payable for 8 years or as lump-sum Pension amount shared between spouse, parents, children under age 18 (no age limit if student or disabled).

Main source: Social Security Programs throughout the World Asia and Pacific 2002 (Social Security Administration of USA.)

Table 16.9 Benefits for workers' compensation - Employer Liability Schemes

Country	Medical	TDB	PDB	Survivors
Fiji	Medical and hospital care, surgery, medicines, appliances and transportation.	66% of weekly earnings payable after 2 day waiting period for up to 260 weeks and a maximum amount of FJD 16,000.	For total disability a lump-sum of 260 week's earnings and a percentage of this for partial disability according to degree of disability.	A lump-sum of 208 week's earnings subject to a minimum of FJD 9,000 and a maximum of FJD 24,000.
Hong Kong	Medical examination, treatment and appliances.	80% of the difference between earnings prior to and after onset of disability payable for maximum of 36 months.	A lump-sum of between 48 and 96 month's earnings according to age of the employee. Minimum is HKD 344,000 and maximum HKD 2,106,000. Partial disability benefit is appropriate percentage of PTD.	Grant of between 36 and 84 month's earnings according to age of the deceased with a minimum of HKD 303,000 and a maximum of HKD 1,764,000.
Kiribati	No provision for medical care under the Ordinance. Employer may be required to pay for artificial limbs.	The rate is 100% if the earnings are AUD 40 a month or less, 75% for monthly earnings of over AUD 40 but not exceeding AUD 60, and 66 ² / ₃ % for earnings higher than AUD 60 per month. TDB is payable after 3 waiting days with a financial limit of the lump-sum amount payable if the incapacity is permanent.	PTD is payable as a lump sum of 48 months earnings or AUD 25 000, whichever is less, and constant attendance benefit is another 25%. Benefits for partial incapacity are proportionate to the benefits for PTD according to the degree of incapacity.	Eligible dependants receive death benefits of a lump sum of 48 months earnings or AUD 25,000, whichever is less.
Pakistan	Medical examinations and treatment.	50% of monthly earnings for up to 1 year For a lung disease 33% is payable for up to 5 years.	For PTD a lump-sum of PKR 200,000 and partial disability attracts payments in proportion to degree of incapacity	A lump-sum of PKR 100,000.
Singapore	All necessary medical care, medicines, hospitalisation, and appliances.	100% of earnings for up to 60 days if hospitalised and 14 days if not; thereafter 66 ² / ₃ % Maximum duration is 1 year	PTD is lump-sum of 6 to 12 years earnings according to age subject to a minimum of SGD 49,000 and maximum of SGD 147,000. Amount for partial disability is in proportion.	Benefit is a lump-sum of 4 to 9 years earnings according to age subject to a minimum of SGD 39,000 and maximum of SGD 111,000.
Solomon Islands	Medical care, medicines and appliances	0 -100% of earnings according to the wage and the assessed degree of disability Maximum is SBD 160 per month payable until recovery, death or certified as permanently disabled.	Lump-sum of 48 month's earnings for PTD and proportionate amounts for partial disability. Maximum is SBD 9,000	Lump-sum of 36 month's earnings less PTD already paid up to maximum of SBD 9,000. Maximum for a fatal injury is SBD 80,000. Courts allocate amounts to survivors.
Sri Lanka	Free of charge in government hospitals.	50% of earnings for up to 5 years. Maximum is 5,000 rupees per month	A grant of between 21,168 and LKR 250,000 and for partial disability from 30% and 100% of compensation.	Lump-sum of between 2 and 5 years wages varying inversely to wage class. Minimum and maximum sums.

* Constant attendance allowance is payable

Main source: Social Security Programs throughout the World Asia and Pacific 2002 (Social Security Administration of USA.)

16B The accident compensation scheme of Samoa

16B.1 The Accident Compensation Insurance Scheme of Samoa

16B.1.1 Introduction

The Accident Compensation Scheme in Samoa has operated for over 25 years and constitutes a rare example of a social insurance scheme for work-injury amongst Pacific Island countries. For this reason alone it is of interest to countries which are concerned about serious deficiencies in their workers' compensation schemes and wish to gather information on how conversion into a social insurance system works in practice in a socio-economic setting with many similarities to the conditions in their own countries. However, the following other features of the scheme are of special interest:

- Cover for work-injury was recently expanded to a 24 hour 7 days a week basis;
- The scheme covers the whole population against the consequences of motor vehicle and boat accidents; and
- Emphasis on accident prevention and comprehensive rehabilitation.

The purposes of this Appendix therefore are to:

- Describe the objectives of the scheme, its scope of coverage and systems of contributions and benefits; and
- Outline the main features of its organisation and administration.

To provide the social and economic context of the scheme, general information on Samoa is provided in the following section.

16B.1.2 General information on Samoa

(i) Location, Population and Employment

Samoa is a small group of ten islands in the South Pacific Ocean, about half way between Hawaii and New Zealand. Most of the population is concentrated on the two main islands, Upolu and Savaii. The 2001 census found that the total population was 176,710 with a distribution of 52 percent male and 48 percent female. As the population growth rate is about 1.0 percent per annum the current population in 2005 is estimated as in excess of WST 180,000. GDP per capita increased by about 3.2 per cent over the period 1995-2002. This reflects both the strong

economic performance and low population growth rates as a result of out-migration. At the end of 2002, GDP real per capita amounted to WST 3950 (USD 1,230), increasing from WST 3,180 (USD 1,006) in 1995. The average real rate of GDP growth over the period 1995 – 2002 was 4.0 per cent which was followed by 3.5 per cent in 2003. The growth acceleration was driven by the manufacturing sub-sector, transport and communications, finance and business services, and agriculture, which expanded strongly after years of decline. Public administration, hotels and restaurants, and personal services also grew relatively rapidly, while construction grew at a modest rate of 2.5 per cent. The fishing industry experienced a 10 per cent decline due to unfavourable climatic conditions common to the region.

The Labour Force Survey 2000 found that 17,164 persons, of whom 7,163 were women and 10,001 were men, were employed in the formal sector. The survey revealed that paid employees were 93 per cent of the total and self-employed about 4 per cent with the remainder unpaid family workers and paid non-citizens.

(ii) Social Security Programmes

Samoa has a range of other formal social security programmes of which the following are explained below:

- The national provident fund;
- Senior Citizens Benefit Fund (universal aged pension scheme); and
- Universal health care.

It should be noted that there is no sickness benefit through labour or social insurance legislation which in many countries could be a factor in increasing claims under work injury by employees who are incapacitated for work due to a cause other than an accident but find it possible to claim otherwise in order to receive an income whilst undergoing medical attention for a morbid condition.

(iii) Samoa National Provident Fund

The Samoa National Provident Fund (SNPF) was established in 1972 in parallel to the government superannuation fund which it superseded in 1994 when the two funds merged. The NPF is managed by a ten member tripartite board

comprising representatives from government, employers and employees. SNPF is a defined contribution scheme; 5 per cent is contributed from the members' wages and 5 per cent by the employer. Membership currently stands at approximately 66,000 and its assets and contributions were valued at USD 91 million as of December 2002. The fourth quarterly report (30 June 2004) showed 21,318 contributing members and 63 voluntary contributions, a total of 21,381 active contributors.

As in a number of Pacific Island countries none of the social security schemes provide pensions, it is noteworthy that SNPF offers the option of an annuity at age 55 years, or full withdrawal of balances in a lump-sum. Due to the generally low balances at age 55, as a result of withdrawals allowed under the legislation, most of the pensions are awarded to senior public servants and some private sector contributors who have sufficiently large balances in their retirement accounts to obtain reasonable monthly pension rates. Most members choose lump sum payment as the monthly pension rates would be insignificant. At the end of June 2004 there were 1,035 SNPF current pensioners

(iv) Senior Citizens Benefit Fund (SCBF)

Since November 1990 the government has provided a universal defined pension to all senior citizens over 65 years of age. The benefits provided to pensioners include:

- Cash payment of WST 100 per month,
- Free health care including consultation, hospitalisation and pharmaceuticals,
- Free transport on government buses and ferries including to American Samoa, and
- Assistance and mediation between pensioners and payment trustees.

In 2003 there were 4,532 females and 3,689 males in receipt of these pensions. Benefit is now paid in cash to minimise overpayments which can occur when the pensioner dies or leaves the country for a period of more than 30 days.

(v) Health services

The Samoan National Health Care System is dominated by the public health sector. The Ministry of Health provides primary, secondary, limited tertiary care, and public health services through a network of facilities. Tertiary care,

which basically is unavailable in country, is provided overseas generally in New Zealand and Australia. Approximately 5.8 per cent of the GDP and 17.8 per cent of the total government expenditure is spent on the health sector. Per capita expenditure amounts to USD 86. Government spending on health as a proportion of its total expenditure has notably increased from 10.2 per cent in 1991 to 17 percent in 2001. For health care financing, 63 per cent was accounted for by public sources and 21 per cent by private sources (out of pocket for private sector including traditional healers). The remaining 16 per cent was provided by international donors and other sources.

It is estimated that 44 per cent of total health expenditure occurred in the public sector, 18 per cent in the private sector, pharmacies (public and private) for 19 per cent, and remaining 19 per cent related to overseas treatment. Over recent years the profit-based private health sector has been expanding.

16B.1.3 Overview of the Accident Compensation Scheme

(i) General

The Accident Compensation Board was established in 1979 and its current legislation (Accident Compensation Act 1989) was amended in 2003 to extend cover of workers on a 24 hour and 7 days a week basis and to provide accident compensation to the whole population against the consequences of specified conveyance accidents. Some benefit improvements were introduced, including:

- Increase of weekly compensation from 60 to 70 per cent of earnings;
- Doubling of the maximum sum for permanent incapacity to WST 8,000, and
- Changing the maximum duration of pension payments for permanent disability of 80 per cent or more from 5 years to until recovery which means for life in the majority of such cases.

The 2003 amendment also renamed the Board as the Accident Compensation Corporation (ACC). Board membership is prescribed in section 4 of the Act with the Minister of Labour designated as chairman and the Commissioner of Labour as Deputy Chairman; and the Financial Secretary, President of the Chamber of Commerce, President of the Manufacturers Association and 5

other members appointed by the Head of State, acting on the advice of the Cabinet, of which one should be a barrister and solicitor, one a doctor, one a public accountant and two other persons who are acquainted with the customs and traditions of Samoa as members. The ACC organisation chart is at Figure 16B.1.

The major functions of the ACC are the:

- Promotion of safety and accident prevention both at workplaces and throughout the community,
- Provision of compensation and rehabilitation for employees who are victims of work-connected accidents, including cover for 24 hours per day and 7 days per week, and for persons who suffer specified conveyance accidents, and
- Provision of compensation to dependents of persons who die as a result of workplace or conveyance accidents.

The ACC collects from employers in the private and public sectors 1 per cent of payroll and, since September 2003, 1 per cent of gross earnings from employees. The main reason given in the Annual Report for 2003 for the introduction of employee contributions was to finance the extended coverage on a 24 hour and 7 day week basis. A fuel levy of WST 0.05 per gallon of fuel is paid to ACC for the costs of compensation in respect of specified conveyance accidents. Two funds were maintained for work injury and conveyance accidents respectively until September 2003 when they were merged

(ii) *Scope of Coverage*

The Act specifies that any worker employed by any employer other than an exempted employer who suffers personal injury by accident arising out of and in the course of his employment is entitled to compensation and rehabilitation. The Act applies to any worker in any occupation whether or not the employment is for the purposes of any trade or business carried on by the employer and whether or not the employment is of a casual nature. These provisions were revised with effect from September 2003 to provide cover on a 24 hour and 7 days a week basis.

As regards **accidents**, the key definitions are as follows:

- *Accident or personal injury by accident includes occupational disease to which the Act applies.*
- *accident covered by the Act* means an accident covered by special provisions in sections 15,16,17,18, 25 and 35 of the Act within the basic definition of a *personal injury by accident covered by this Act*.

The special provisions deal with the following situations:

- (a) Apprentices are covered whilst attending technical school or other places of training
- (b) A person who suffers an accident whilst acting in contravention of regulations or enactments applicable to his employment or of orders given to him will be covered if it is deemed that the accident would have occurred had the worker not acted in contravention as stated or without orders from his employer.
- (c) Where the accident happens during any temporary interruption of work for a meal or refreshment the accident is deemed to arise out of and in the course of the employment if the accident would have been deemed so to have arisen had it happened at the place of employment and if:
 - (i) the accident happens on premises occupied by the employer; or
 - (ii) the accident happens on premises to which the worker had right of access during the temporary interruption of his work; or
 - (iii) the accident happens on premises to which the worker is permitted to resort during the temporary interruption of his work.
- (d) Where the accident happens while the worker is travelling to or from work by a means of transport, the accident shall be deemed to arise out of and in the course of the employment:
 - (i) If the employer has provided the means of transport primarily for the purpose of carrying workers employed by him; or
 - (ii) The means of transport has been expressly or impliedly authorised by the employer for the purpose; or
 - (iii) The employer has arranged with the worker or group of workers for the transportation of the worker to and from work by that means of transport and has paid or become liable to pay the whole or any portion of the fare or cost of carriage of the worker by that means of transport.

- (e) Where an accident happens to a worker while he is travelling to or from work by the most direct practicable route between the place of employment and premises to which he has the right of access, or while is upon any such premises, the accident shall be deemed to arise out of and in the course of the employment if the accident would have been deemed so to have arisen had it happened at the place of employment.
- (f) If the preceding sub-paragraph does not apply, and an accident occurs to a worker while he is travelling directly to his place of work from his place of residence by a route which having regard to all of the circumstances was a reasonable one for him to follow the accident shall be deemed for the purposes of the Act to have arisen out of and in the course of his employment.
- (g) An accident caused by another person's misconduct, skylarking, or negligence is now covered provided that the worker did not directly or indirectly induce or collaborate to the happening of the accident by any act not incidental to his employment.
- (h) Injuries sustained whilst overseas by a worker who is temporarily absent from Samoa exclusively or principally for the purposes of his employment in Samoa are covered. and
- (i) Where the contract of service or apprenticeship under which the injured worker was working at the time of the accident was illegal the Board may deal with the matter as if the injured worker had been working under a valid contract of service or apprenticeship. Cases of victims under the minimum age can be treated similarly.

Under the amendments a specified conveyance is defined as follows:

- (a) A motor vehicle, including a motor cycle or other means of conveyance on land, which is propelled by means of a motor or engine, or
- (b) A sea-going vessel which is propelled by means of a motor or engine where such vessel is travelling between two or more points in Samoa or which is intended to return to its point of departure in Samoa without calling at any point or place outside Samoa during the course of its journey

This omits cover for airplane journeys as prescribed in the original act. This was dropped due to other arrangements recently introduced for the insurance of airline passengers.

Section 19 which previously prohibited the payment of compensation in respect of self-inflicted injuries or death due to suicide other than suicide which was as a result of an accident covered by the Act was revised to extend entitlement in respect of self-inflicted injuries on the same basis to include personal injuries which were the result of a state of mind which itself was the result of an accident covered by the Act.

In addition disqualifications are imposed on:

- Dependants of a deceased person for the receipt of compensation when that dependant has been convicted of the murder or manslaughter of that person; and
- A claimant who submits a claim in respect of a personal injury which was suffered in the course of committing a criminal offence and the injured person is convicted of the offence concerned.

The main purpose of these various special provisions is to remove any doubt in some of the borderline situations that can occur and so ensure speedy settlement of claims, usually to the benefit of the claimants.

(iii) *Benefits*

Medical benefits are defined as reasonable medical expenses for first aid, dental care, transport, surgery and hospitalisation, plus artificial aids and rehabilitation. Overseas medical treatment is permitted up to a maximum of WST 15,000. Whilst the main purpose of the ACC scheme is stated to be accident prevention a high priority is accorded to physical rehabilitation in order to assist persons disabled through accidents to the maximum extent. WST 15,000 is also the new maximum for expenditures on artificial limbs or aids. Wheelchairs are supplied where necessary and are repaired and replaced throughout the lifetime of the disabled person. For the fitting of artificial limbs the disabled persons are sent to the Auckland Artificial Limbs Centre for a period of from 6 to 8 weeks for the fitting and training in the use of the artificial limbs. Persons wishing to undertake vocational training make their own arrangements with the polytechnic.

The compensation **cash benefits** for temporary and permanent disability and death are shown in Table 16.10 below.

Table 16.10 Cash benefits for work injury

Temporary disability benefit (TDB)	Permanent disability benefit (PDB)	Survivors Benefits
After a 5 day waiting period 70% of earnings subject to minimum of WST 35 per week up to maximum of WST 400 per week. The 5 days are payable when incapacity lasts more than 5 days. The maximum duration is flexible.	For 80% or more disability: a pension for life or until recovery of 70% of earnings for 100% disability and proportionate amounts for lower assessments. For less than 80% disability: a lump-sum of up to WST 8,000 for total disability and proportionate amounts for partial disability according to assessed degrees of incapacity.	A lump-sum of WST 20,000 for distribution to totally or partially dependant survivors plus weekly compensation of 70% of full wages for up to 4 years subject to a WST 200 a week maximum. Trust funds for child dependents

Source: ACC – Annual Report 2003

For specified conveyance accidents the same benefits apply except that no TDB is payable or pensions to survivors. The ACC has progressively extended pensions protection linked with lump-sums in the case of serious permanent disability and death although there is a general preference for lump sums rather than pensions amongst a proportion of beneficiaries and their family members. Generally, such lump-sums are quickly spent and few are carefully utilised for long-term income purposes with the support of pension payments for a limited period, as in the case described in Box 16.2.

Box 16.2 Tito's repair and brick businesses-survival strategies after permanent total disability

Tito was a school-teacher in Apia aged 27 when he suffered a fractured spine and complete paralysis of his upper body in a car accident in 1986. Under the ACB legislation he was then entitled to a pension of 60% of earnings which amounted to WST 44.94 per week payable for 3 years (the current law prescribes pensions for life in such cases) and a lump sum of WST 2000 in addition to medical care and rehabilitation. Confined to a wheelchair, Tito had every right to expect family support as the local community and family structures in Samoa (Fa'a Samoa) are very strong but he also took some positive steps to ensure he utilised the financial support to build up his capacity to support his family. These steps included purchase of a range of hand tools so that he could become a general repair man fixing lawn mowers and other household appliances, and establishing a brick manufacturing business. This is situated in his village where raw materials are available and is run by his brother and other relatives. The equipment was designed and produced by the local polytechnic which charged Tito WST150. The first bricks produced were used to build his house which is an important asset he was determined his family should enjoy. ACC will provide rehabilitation assistance throughout his lifetime which is mainly in the form of repairs or replacement of his wheelchair. In fact, Tito has become an accomplished repairer of wheelchairs so can rehabilitate older chairs for his personal use.

Claims after **fatal accidents** entail detailed enquiries into family relationships in order to determine whether any family members were totally or partially dependent as this is the basis for entitlement. The Act contains a broad definition of dependants in the Act as “any other

*person who he had a legal duty to support in whole or part at the time when the dependency has to be determined and includes any other person whom he might then reasonably regard or have regarded himself as having a moral duty to support in whole or part, and whom he was then supporting in whole or part, and includes a child of his born after his death and **dependent, totally dependent and partially dependent** have corresponding meanings.* The final decision is made by the Board. Persons who wish for a review of a decision on a claim can request one from the Board and a further appeal lies to the Supreme Court.

The compensation for minors is paid into trust accounts with the guardian and ACC Manager as co-trustees of the accounts. As at June 2003 there were 153 trust accounts amounting in total to WST 678,992. The application of the provisions on adult and minor survivors is illustrated by Box 16.3

Box 16.3 Survivor's benefits put to good use-Julia's trust fund

Julia was only a few months old when her father was killed at work in May 1990. His wife had moved to the USA and was ruled as neither totally or partially dependent on the deceased, and so was his de-facto wife, a school-teacher and Julia's mother. All compensation was payable to Julia consisting of a pension of WST 33.85 per week for 3 years and a lump-sum of WST 20,000. The Board placed WST 2,000 in a savings account and WST 18,000 on fixed deposit. Over the years funds have been released for Julia's upkeep and school-related purposes. Julia's mother has never had to worry about the school fees, uniforms and books. Julia is now aged 15 and expenditure so far amounts to WST 19,135 but standing to her credit is the sum of WST 1,802.22 in her saving account and WST 21,751.13 on fixed deposit. Whatever funds have accumulated will be paid out to her at age 18 when ACC's responsibility ends.

(iv) *Accident prevention*

Accident prevention is a primary aim of the ACC and it works closely with the responsible government bodies which is the Department of Labour in the field of workplace safety, and for specified conveyance accidents, members of the National Road Safety Committee. The latter is chaired by the Transport Control Board of the Ministry of Transport and other members are the Ministry of Police, Ministry of Works and the Ministry of Education. For work-injuries the Safety Promotion Unit of ACC supplies the Department of Labour with a monthly report of all accidents for follow-up and also undertakes very detailed analyses of all accidents (including the time, place, type, causes, profiles of the injured and the nature of injuries). The pattern for some years is that over 90 per cent of work injuries are sustained by male employees and under 10 per cent by female workers whilst the main sectors in order of percentages of accidents are services, construction and manufacturing. These types of regular analyses help to target safety campaigns and to evaluate their impact.

One example is the focus on preventing accidents involving children in which ACC has had a leading role having identified the fact that children featured in over 40 per cent of traffic accidents. The subject of road safety was first taught at schools as an experiment and was considered to have contributed to a reduction in the frequency of such accidents to about 25 per cent. A manual has been produced and road safety is now incorporated into the primary school curriculum whilst ACC continues its efforts on a broad front to develop higher safety consciousness at the workplace and in the use of motorised conveyances.

16B.1.4 ACC organisation and operations

(i) *ACC Vision and Mission*

Figure 16.1 shows the ACC organisation which is designed to carry out the mandate and functions of the scheme. The ACC has drawn up a corporate plan for 2004-2007 which lists the core functions of safety promotion, rehabilitation, provision of compensation and sound investment strategies to maximise returns on investments and assets. The corporate vision for the accident compensation scheme is to become more responsive to the needs of the

victims and the community and the ACC mission is envisaged as to endeavour within its means to reduce the social, economic and physical impact of personal injury by accident covered by the Act.

The corporate plan contains a detailed management plan with a series of specific aims, outputs, time frames and performance indicators for the achievement of its objectives in the fields of safety, rehabilitation, compensation, supporting services and the finances of the scheme. For example in regard to claims due emphasis is made on expediting settlements as follows:

- For personal injury claims-70 to 80 per cent to be settled within 7 working days; and
- Fatal claims-70 to 80 per cent to be settled within 4 to 8 weeks.

The following sections contain brief outlines of the main administrative activities for a contributory scheme of contribution collection and processing of claims and information on the finances of the scheme

(ii) *Contributions collection*

Contributions are paid and collected from wages by employers and should be remitted to ACC within 7 days of the end of the pay period. The sums payable are transferred according the employers preferences at weekly, fortnightly or monthly intervals. The payments are paid in cash or by cheque without any accompanying schedule of employees. ACC accounts staff monitor contribution payments closely to detect under or non payments for prompt follow-up, and can collaborate with the SINPF to check on enforcement problems with particular employers. Surcharges can be applied for late payments. Possibly due to the relatively small contribution levels, ACC has not experienced any significant compliance problems.

(iii) *Claims processing*

The following Table 16.11 contains statistics of the types of accidents for which claims were made over the period from 2000 to 2004. The main features noted are:

- Work injury and motor vehicle accidents are the largest categories and both show increases in 2003 and 2004,

- The new category since September 2003 of after hours injuries to workers reached 37 cases in 2004 and is likely to increase as the entitlement becomes more widely known, and
- Overall the ACCs responsibilities have increased significantly with the extension of coverage.

Table 16.11 Number of claims received by type 2000-2004

Type of Claim	2000	2001	2002	2003	2004
1.Work injury	89	86	95	113	103
2.Workers injured after hours*	0	0	0	9	37
3.Motor vehicle accidents	89	96	80	110	117
4.Other specified conveyance accidents	5	2	2	9	2
5.Unrelated claims	1	3	0	1	1
Total	183	187	177	242	260

* Since September 2003

ACC has pinpointed the importance of quality service to covered persons and in particular has set performance standards for registration of accidents by the police and employers respectively and for making and implementing decisions on entitlement. Employers have 5 days to report a work-connected accident and ACC strives to expedite such notifications and those on traffic accidents but states that there is still room for improvement by employers and the police. Once ACC has received the accident and medical reports the claims investigation unit undertakes an enquiry into the accident which enable it to confirm the details of the accident and the amount of earnings stated on the accident report. This unit is then able to process and authorise payment. The annual report for the first 6 months of 2003 contains the information that it has achieved an average of 2.5 days to make the first payment compared with a 4 days average in the previous year. This is an acceptable standard and one of a type that is still an aim for many other national workers' compensation schemes.

This excludes fatal accidents as these cases require extensive investigation amongst dependants who have to be interviewed on the question of financial dependency followed by cross-checking on the subject of maintenance of dependants. Such cases are given priority but take a few weeks to settle.

(iv) *Financing*

The financing of work injury insurance has continued on a sound footing, enabling ACC to extend the coverage and improve cash and medical benefits. Although the two funds have merged Table 16.13 below contains separate figures which show that the workers' compensation fund had accumulated over WST 39 million at the end of June 2004 whilst the specified conveyance fund had a deficit of over WST 3 million.

The merger of the funds is intended to stabilise the finances in order to meet higher expenditures in future.

16B.1.5 Concluding remarks

The concept of an accident compensation scheme both for paid employees and for the population as a whole has been carefully established and developed over the years balancing proposals for wider coverage and improved benefit entitlements with considerations of affordability and feasibility. Both medical and income protection have been progressively enhanced, coverage has been expanded and, considering the social and economic costs and consequences of traffic and workplace accidents, the emphasis on safety promotion and accident prevention as a primary aim has significantly increased the impact of the scheme.

Table 16.13 also shows that the current year started with a total balance of over WST 36 million enabling ACC to look forward to more progress and development in the future in pursuit of its goals for improved protection of the population of Samoa.

16B.1.6 Samoan national statistics

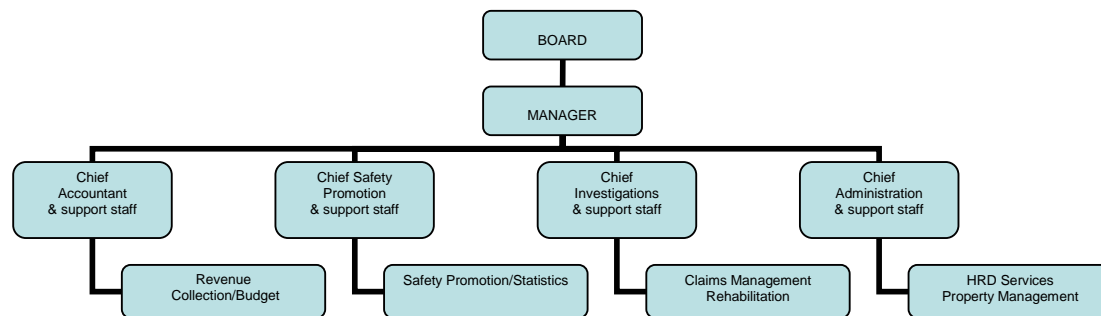
Table 16.12 Total formal sector employment

Sector	Male	Female	Total
Private sector employees	7,132	5,036	12,163
Public service employees (permanent)	2,119	1,618	3,737
Public service employees (casual/ temporary) (male/female are estimates only)	750	509	1,259
Total	10,001	7,163	17,164

Table 16.13 Income and expenditure 2003-2004

30.6.2003	Income	Worker's Compensation Fund	Conveyance Fund	Total to 30.6.04
1,390,949	Net levy income	4,271,169	555,165	4,826,334
83,415	Interest	308,461	0	308,461
461,408	Fugalei market	927,896	0	927,896
960,908	Rent & other income	1,823,545	0	1,823,545
2,896,680	Total income	7,331,071	555,165	7,886,235
	Expenditure			
140,797	Compensation	410,721	293,406	704,127
427,352	Building costs	1,059,043	0	1,059,043
302,445	Fugalei market	605,213	0	605,213
530,368	Operating expenses	661,993	535,427	1,197,420
1,400,961	Total expenditure	2,736,970	828,833	3,565,803
1,495,719	Income over expenditure	4,594,101	-273,668	4,320,432
30,767,428	Fund Balance 30.6.03	35,285,559	-3,125,394	32,160,165
32,263,147	Fund Balance 30.6.04	39,879,660	-3,399,062	36,480,598

Source: ACC

Figure 16.1 ACC organisation chart

Chapter 17 Workers' compensation in Solomon Islands

17.1 National action plan for decent work

The Report of the World Commission on the Social Dimension of Globalization contains a wide range of policy suggestions and recommendations to help set the process of globalization on a path leading to more sustainable and equitable economic and social outcomes. As it concerns the ILO, the Report sets Decent Work as a central element of the social dimension of globalization. Decent work, as advocated by the ILO, aims to “promote opportunities for all women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity”. It brings together the four strategic objectives of the ILO – fundamental principles and rights at work, employment, social protection and social dialogue.

The National Action Plan for Decent Work (NAPDW), for the formulation of which a National Tripartite Advisory Committee was established, provides a strategic framework for the Government, employers' and workers' organizations, together with the ILO, to work in partnership towards the goal of decent work. The action plan is intended to highlight the priority areas of ILO technical cooperation to support the national policy and programme. Four sectors are identified in which challenges and decent work deficits call for attention as well as the cross-cutting issue of gender equality. Of these, the following section gives full details of Sector 3 which is concerned with the challenges, deficits and issues in the field of social protection.

17.1.1 Sector 3 – Enhance coverage and effectiveness of social protection for all

(i) *Sustainability of the Solomon Islands National Provident Fund (SINPF)*

In recent years the national provident fund has experienced serious financial difficulties caused by massive withdrawals and a sharp decline in contributions due to redundancy. Even with a limited scope, the Fund played a certain role in alleviating the adverse impact of the conflict by allowing withdrawals by the redundant workers. The solvency of the fund was threatened because

of a huge and sudden reduction in liquidity of the assets. The fund managed to survive this critical period, but the situation is still vulnerable and poses a serious threat to the sustainability of the fund.

Although the long-term sustainability of the Fund depends on the recovery of its membership and capital investment, the fund should undertake reform measures to improve its financial position. On the expenditure side, the current legislation which allows various grounds of withdrawal should be made stricter; and, on the income side, the fund should strengthen the compliance and collection of contributions. Efficient management and administration of the fund are a prerequisite for any reform.

The Fund needs to review its investment policy. As a large portion of funds is invested in the government and quasi-government bodies which face serious cash flow problems. Consequently, the Fund declared the statutory minimum interest rate (2.5 per cent per cent) to members' accounts for the period 1999-2002. The Fund needs to develop investment strategy to diversify its investment portfolio to the private sector and overseas and to secure the safety and maximise investment yields thereby providing adequate return to members' accounts.

(ii) *Limited social security coverage and inadequate scope and level of benefits*

In Solomon Islands, the provision of social security is limited both in terms of population coverage and of scope and level of protection. First, the social security coverage is limited to workers in the formal employment sector which represents only a small fraction of working population. A large majority of workers in the informal and subsistence economy are left outside the scope of any social security protection. In the absence of comprehensive social security cover by the national system, the ultimate safety net is still provided by the traditional social practices and family support, which tend to disappear as the society transforms into a modern one.

Second, the existing schemes, including the national provident fund and workers'

compensation, provide benefits in respect of limited social contingencies. Further, the level of benefits provided from these schemes is also limited. The protection against such risks as health care, sickness, maternity, unemployment is not available.

(iii) *Low awareness of Occupation Safety and Health (OSH) and limited information*

The lack of awareness on occupational safety and health is a primary cause underlying the unfavourable working conditions in Solomon Islands. This concern is serious for workers engaged in hazardous occupations such as agriculture, forestry and fishery. Owing to their cost concern, employers do not pay attention to ensure that the workplace is safe and healthy. workers do not have knowledge of their benefits and rights, nor do they have access to information on the effective prevention and control of hazards and risks at workplaces.

(iv) *Inadequate compliance and weak enforcement of OSH legislations*

Due to limited staff, lack of training and lack of resources, the Labour Division has little capacity to undertake safety inspection across the country. There is estimated to be a significant number of under-reporting of industrial accidents and occupational diseases. There is no national advisory body responsible for promoting and ensuring the OSH standards. Above all, the government has no comprehensive national programmes on OSH.

(v) *Lack of recognition of HIV/AIDS as a workplace issue*

So far there is one reported case of HIV/AIDS in Solomon Islands. However, there is no regular surveillance carried out or no multi-government agency task force to address the issue of HIV-AIDS. As a consequence, the awareness of the general public on HIV/AIDS prevention is generally non-existent let alone the recognition of HIV/AIDS prevention as a workplace issue.

The strategic responses are envisaged as:

- Technical support for improvements in financial governance, investment policy and administration of SINPF. Follow up to the two technical reviews undertaken 2001-2002,

- Support for development of strategy for extension of social security coverage,
- Support for development of a comprehensive national OSH programme, including awareness raising campaign and capacity building of the labour inspectorate for the strengthened OSH inspection, and
- Promote the workplace programmes on prevention of HIV/AIDS/STD and application of the ILO code of practice on HIV/AIDS at the workplace in the framework of the sub-regional project on HIV/AIDS.

The priority areas of action determined by the major stakeholders include:

- Technical support for improvements in financial governance, investment policy and administration of SINPF,
- Support for development of a strategy for extension of social security coverage, and
- Technical assistance for a review of major labour laws.

17.2 Overview of Social Protection

17.2.1 Outline of main provisions

In this section relevant provisions of the Employment Act, Labour Act and the Solomon Islands National Provident Fund legislation are outlined. The Worker's Compensation Act and its workings are reviewed in section IV.

17.2.2 Labour Legislation

The Employment Act 1981, insofar as it refers to social protection, provides for redundancy payments for workers with a minimum of 26 weeks employment who are declared redundant and are under age 50. The redundancy payments are set at 2 weeks basic wages per year of service up to a limit of 65 weeks basic wage.

The Labour Act provides for minimum wages and certain employment related benefits. Maternity leave is stipulated as for up to 12 weeks including compulsory leave for 6 weeks after the confinement. The Act specifies entitlement of 25 per cent of basic wages but public servants have negotiated 100 per cent and many collective agreements have increased the pay rate over 25 per cent. Under the rules approved under this Act, sick leave is specified as 22 days per year

for employees with a minimum of 26 weeks service.

17.2.3 Solomon Islands National Provident Fund

(i) Overview of the scheme

The NPF applies to all employees in formal employment in the government service, public enterprises and the private sector. The scheme is run by a tripartite board under the Ministry of Finance. Contributions are charged at 7.5 per cent by employers and 5 per cent by employees. Benefits are paid in the form of the balances in the individual accounts in the event of

- Attainment of age 40 and retired from employment,
- Attainment of age 50,
- Redundancy, by payments spread over 3 years and subject to continuing unemployment,
- Death, plus a Special Death Benefit of SBD 2500 for which SBD 5 is deducted from members accounts each year,
- Certification of physical or mental incapacity for further employment, and
- Permanent emigration.

In addition to these quite extensive entitlements, other changes have tended to move the scheme more to meeting current social needs and less to the provision of retirement benefits. In 1982 an amendment allowed members to pledge two-thirds of their accounts against loans from financial institutions and after 6 months default the pledge is invoked. This provision may be abused by persons wishing to withdraw without a valid basis for doing so. In 1986 the Board was empowered to participate in businesses beneficial to members and to grant loans for this purpose. Special loan schemes were established for urban housing, rural housing, and furniture purchase.

Against this background, the recent trends of reduced employment resulted in lower contribution income during a period when the volume of withdrawals increased substantially to the point where the amounts paid out exceeded contribution income. This occurred in 1999, 2001 and 2002, as shown in Table 17.1 below and seriously weakened NPFs position.

Table 17.1 Financial operations of the SINPF 1997-2002

(in thousands SBD)

	1997	1998	1999	2000	2001	2002
Contributions	36,565	46,655	57,158	49,418	25,682	22,360
Withdrawals	24,092	27,621	46,912	56,562	73,591	47,514
Interest credited	18,808	20,026	23,083	19,706	7,389	8,225
Interest rate		7.5%	8.0%	6.0%	2.5%	3.0%
Funds	309,189	346,978	378,220	393,651	365,986	353,172
-Contribution account	284,373	328,744	357,036	368,809	327,993	310,612
-Reserves	24,815	18,235	21,184	24,841	37,993	42,560
Amounts due	n.a.	43,614	13,843	12,883	93,440	107,489
-by the government	n.a.	37,700	2,100	2,100	72,800	85,000
-by the statutory authorities	n.a.	5,914	11,743	10,783	20,640	22,489

Source: Solomon Islands National Provident Fund

There has been a notable improvement in contributions collected in 2003 and 2004 whilst withdrawals in these years have fallen significantly compared with the period from 1999 to 2002 (Tables 17.1 and 17.2). Most types of withdrawals were at lower levels and the total amounts paid out were substantially less than in the preceding 4 years.

However, continued failure of government to redeem matured securities and non-payment of contributions has undermined financial stability. The amounts due from government especially and statutory authorities are very substantial (Table 17.2). Negotiations on some form of debt restructuring and repayment schedule are on-going with the prospect that the fund's entitlements will be scaled downwards.

Table 17.2 Financial operations of the SINPF 2003-2004

(in thousands SBD)

Financial Element	2003	2004
Contributions	37,280	49,984
Withdrawals	27,544	26,309
Interest credited	6,884	7,838
Interest rate	2.5%	2.6%
Funds	44,906	13,934
-Revaluation Reserves	2,112	21,135
-General Reserves	42,794	-7,201
-Contribution account	327,141	357,788
Amounts due	176,200	166,151
-by the government	148,600	133,951
-by the statutory authorities	27,600	32,200

Source: Solomon Islands National Provident Fund

The NPF needs to revise its investment policies in order to reduce reliance on government securities and invest in the private sector and

overseas. The interest rates declared in recent years are either at the minimum of 2.5 per cent or very close to it and fail to meet members' expectations for enhancement of their balances. This is an important issue not only for the present SINPF scheme and prospects for its future development, but also for any other contributory scheme which may be established in the country, such as for workers' compensation, as inadequate scope for fruitful investment of reserves tends to undermine the concepts of funding such schemes.

The SINPF Amendment Bill submitted for approval by Parliament contains the following proposed changes to the scheme:

- Abolition of the Special Death Benefit (SDB) Scheme and establishment of a Special Benefit Fund (SBF) in which members would have individual accounts to receive part of the contributions for use in special benefit schemes. The rates of contributions to the SBF would be determined by the Minister. A member may apply for exemption from the scheme,
- Where a member has nominated his/her spouse and the marriage is dissolved the nomination will be nullified, as it is when a nomination made before marriage is nullified on marriage,
- Where a member dies but no valid nomination exists the benefits amounts are distributed amongst relatives according to custom which has caused problems where a spouse and children are involved and so it is proposed that the surviving spouse and children should be the beneficiaries,
- The Bill seeks to abolish the pledge of two-thirds of their balances for housing loans from financial institutions, and
- It is proposed that non-residents who have previously withdrawn their contributions should be exempted from further membership.

These amendments, although quite extensive, do not address the issues of the extremely low retirement age and the entitlement to withdraw on becoming redundant amongst other features of the current benefit system. The draft Bill is dated 7 March 2002 and there is no information on the prospects for consideration of these changes by Parliament.

17.3 Workers' compensation scheme

17.3.1 Outline of the Solomon Islands Workmen's Compensation Act¹⁰⁰

The *Workmen's Compensation Act* dating from 1952 covers employed persons including public employees and non-manual workers earning SBD 4,000 a year or less. The concept is of employer liability for personal injuries sustained by an accident arising out of and in the course of the employment by a *workman* defined as a person performing manual labour or, if not, as an employee provided the earnings do not exceed a maximum sum prescribed from time to time by the Minister. The Act has liberal definitions of accidents clearly aiming to compensate employees for all accidents which could reasonably be considered as arising out of the employment. For example, accidents arising out of the employment are deemed, in the absence of evidence to the contrary, also to have arisen in the course of the employment, and vice versa. Accidents whilst travelling to and from work can be included in certain circumstances (using transport operated by the employer or when using public transport). Seamen employed in Solomon Islands ships are covered in respect of accidents which occur in Solomon Islands and elsewhere or on board or otherwise.

The liability for compensation applies only if the incapacity last for a minimum of 3 days but when it does compensation is for the whole period of incapacity. There is a limitation on liability where the accident is proved to be due to the serious and wilful misconduct of the worker, except where death or serious disability occurs, which reduces the extent of the *no-fault* principle and can give rise to disputes. However, the right of workers to sue for damages in respect of the accident is retained in the Act. A schedule of injuries with percentages of incapacity for each type of injury and a schedule of occupational diseases are attached to the Act. Employers are required to insure their liability with insurance companies.

The most recent amendments were in 1996 changing the minimum and maximum for death compensation to SBD 11,500 and SBD 80 000 respectively. The benefits are as follows:

¹⁰⁰ The term Workman's Compensation has been superseded by Workers' compensation which more accurately reflects the structure of the workforce and takes into account female workers.

- Temporary incapacity is payable from first day of incapacity if it lasts more than 3 days at the rate of from 50 to 100 per cent of the earnings according to the monthly wage,
- Permanent total incapacity is payable as a lump sum of 48 months earnings up to maximum of SBD 80,000, whichever is less, and where a requirement for constant attendance is certified, another 25 per cent is added for this purpose,
- Permanent partial incapacity benefits are proportionate to the benefits for permanent total incapacity so that for example assessments of 50 per cent attract benefit of 50 per cent of the maximum of 48 months earnings or SBD 40,000, and
- Eligible dependants receive death benefits of a lump sum of 36 months earnings up to a maximum of SBD 80,000.

The Act dating from 1952 has been amended from time to time to update compensation levels but no significant changes have been effected and so the legislation embodies the principles and practices in respect of workers' compensation of that era. These include the following:

- Coverage for non-manual employees only if earning below a prescribed figure,
- Lump sum benefits for death and disability related to earnings and subject to financial limits and the death benefits due in full only if there is a dependant wholly dependent on the deceased's earnings,
- No entitlement to comprehensive medical care of a specified standard as a priority requirement of injured workers as the provisions merely permit the worker to claim for *reasonable expenses* from the employer if the latter has not already provided for *medical and surgical attendance* and
- Employers are made liable for the costs of artificial limbs provided that the supply of such prostheses will improve the earnings capacity of the worker in which case the compensation has to be reduced accordingly.

17.3.2 Relevant ILO standards

Solomon Islands has ratified 3 ILO Conventions on workers' compensation. These are:

- Convention No.12 ,Workmen's Compensation in Agriculture, 1921 (revised

by Convention No.121),

- Convention No.19 ,Equality of Treatment (Accident Compensation), 1925, and
- Convention No.42, Workmen's Compensation for Occupational Diseases, 1934 (revised by Convention No.121)

The earliest ILO Conventions on this branch of social security referred to *workmen's compensation* but this term was replaced by *employment injury* reflecting the extension of protection from the original focus on manual workers in factories and mines to cover all types of workers and the expansion of female employment. A gradual evolution took place when the social security instruments were modernised in 1952 and 1964 with the adoption of the Convention No.102 Minimum Standards of Social Security, 1952 and Convention No.121, Benefits in the Case of Employment Injury, 1964 which are broader in scope. Some of the main principles in the latter are:

- Employment injury protection must be financed by employers as a continuation of the responsibility for workplace safety,
- Coverage should be at least half of the national workforce, or 20 per cent of all residents,
- The benefits shall comprise medical care in respect of a morbid condition and cash benefits,
- Eligibility for benefits may not be made subject to the length of employment, the duration of insurance or the payment of contributions; however, a period of exposure may be prescribed for occupational diseases,
- Benefits shall be provided throughout the contingency except that in respect of incapacity for work the benefit need not be paid for the first 3 days in each case of suspension of earnings;
- Benefits for longer-term contingencies, such as permanent disability and survivorship, should be in the form of periodical payments payable throughout the contingency (with an exception for minor degrees of disability for which lump-sums may be paid).
- Rates of such benefits shall be reviewed where following substantial changes in the general levels of earnings where these result from substantial changes in the cost of living, and

- Minimum standards for benefits (Convention No.102) include 50 per cent of lost wages for an eligible worker with a family (spouse and 2 children) and for a surviving spouse with 2 children, 40 per cent; these rates were increased to 50 and 60 per cent respectively by Convention No.121.

The present workers' compensation scheme falls significantly short of such standards notably in the deficiencies in the medical and cash benefits.

Cash benefits paid in the form of lump-sums do not meet the requirement that they are paid throughout the contingency in the form of pensions that should be provided to permanently disabled persons with more than a minor degree of loss of earnings capacity (such as 20 per cent or more) and to surviving family members of employees who die from an accident, and maintained in value thereafter. Lump-sums are particularly ineffective for widows and children compared with the guaranteed payment of pensions to surviving spouses and children that may ensure that children can remain in school instead of leaving to engage in income-earning activities. In addition, gender issues arise in the system of distribution of compensation in the event of death of workers, as explained in section 4.3.

Medical care should be provided for the purpose of *maintaining, restoring or improving the health of the person protected and his ability to work and to attend to his personal needs* (Article 34 of the Social Security (Minimum Standards) Convention, No. 102 of 1952). This convention provides that where a country has made a declaration under Article 3 that its economy and medical facilities are insufficiently developed it may be granted a temporary exception from the provisions in Article 34 paragraph 2 and the medical care under the employment injury branch should include at least:

- General practitioner care, including domiciliary visiting,
- Specialist care at hospitals for in-patients and out-patients, and such specialist care as may be available outside hospitals,
- Essential pharmaceutical supplies as prescribed, and
- Hospitalization where necessary.

This list together with the provision of artificial limbs, when prescribed by a medical board, constitute the minimum range of medical benefits to be provided under an employment injury scheme. The Social Security (Minimum Standards) Convention and the Employment Injury Benefits Convention, (No. 121 of 1964) stipulate the principle that the medical benefits shall be provided *throughout the contingency* and free of charge to the insured workers who have suffered an accident or are diagnosed as suffering from an occupational disease.

Accident prevention and rehabilitation

Provisions of Convention No.121 (Article 26) require actions on accident prevention and rehabilitation of accident victims. On the latter, countries are required to provide rehabilitation services which are designed to prepare a disabled person wherever possible for the resumption of his previous activity or if this is not possible the most suitable alternative gainful employment, and to take measures to further the placement of disabled person in suitable employment. These two functions of support for prevention and for programmes of medical and vocational rehabilitation are important features of modern social security systems and are not found in employer liability systems of this type.

17.3.3 Workers' compensation in practice

(i) Claims experience

The Worker's Compensation Section of the Occupational Health and Safety (OHS) Unit of the Labour Division, which handles claims and determines the entitlements on the basis of medical assessments, supplied the available information on claims over the period from 1999 to 2004.

The workers' compensation unit stresses the following points as relevant to any assessment of recent experience:

- A majority of employers fail to report accidents and the workers concerned have to make personal contacts with the workers' compensation unit for this purpose,
- In relation to the claims received, most of the employers do not have insurance cover and the unit believes that many accidents remain unreported and without information on how such cases are settled,

- In a significant percentage of cases, the medical assessments obtained by the workers are unsatisfactory and in any case insurance companies contest a high proportion of such assessments and offer settlements on their own terms, but only after lengthy delays, and
- Cases sent to Court for resolution of disputes on liability are subject to protracted delays and usually conclude to the disadvantage of workers who are rarely

represented adequately.

Table 17.3 shows that the total annual numbers of claims fluctuated from a high of 152 in 1999 to a low of 60 in 2001 when industrial activity was reduced as is evident from the SINPF statistics on redundancy claims reaching their highest levels in that year.

Table 17.3 SINPF withdrawals 1999-2004

Type of withdrawal	1999	2000	2001	2002	2003	2004
Number						
50 years	1,028	1,028	1,260	744	703	795
Death	123	176	186	226	160	211
Incapacity	268	1,018	119	81	29	39
Emigration	159	215	238	179	102	61
Redundancy	1,656	2,064	4,024	1,885	902	709
Retirement after age 40	1,121	1,231	1,334	854	601	634
Refund	2	1	2	1	1	0
Loan pledge	316	314	256	91	67	58
Totals	4,673	6,047	7,419	4,061	2,565	2,507
Amounts (in 000's SI\$)						
50 years	13,426	11,801	19,683	10,724	7,833	9,251
Death	1,125	756	1,141	1,067	465	714
Incapacity	1,676	6,604	772	661	328	249
Emigration	2,474	5,033	6,136	1,929	1,034	1,326
Redundancy	5,569	8,917	16,191	7,200	4,006	3,256
Retirement after age 40	13,786	15,802	20,793	11,916	9,510	8,172
Refund	5	13	11	2	4	-
Loan pledge	5,025	4,682	5,740	5,480	1,690	1,058
Totals	43,084	53,607	70,466	38,978	24,870	24,026

Source: Solomon Islands National Provident Fund

Table 17.4 contains the information on the 1999-2004 period. The 2004 figures of 125 including 4 fatal cases raise some concern as they stand and in view of the fact that the actual totals may be

significantly higher. The estimates of the percentages settled during each year with an overall estimate of two-thirds provide some insights into the extent of delays.

Table 17.4 Statistics on workers' compensation claims

Year	Total Claims	Fatal Cases	Cases settled in the year %	Estimated total payments
1999	152	15	75%	1.6 m
2000	104	2	60%	0.7 m
2001	60	7	50%	0.8m
2002	100	3	65%	0.7m
2003	72	1	70%	0.6m
2004	125	4	80%	1.2m
Totals	613	32	Average 66.6%	5.6m

Source: OHS Unit, Labour Division, Dept. of Commerce, Employment & Trade

Table 17.5 shows the usual type of distribution amongst sectors with over 40 per cent of all accidents and 50 per cent of fatalities occurring in the logging industry.

Table 17.5 Distribution of workers' compensation claims by industrial sector

Industry	Accidents %	Fatal %
Logging	40.8	50.0
Manufacturing	8.4	6.2
Fishing	7.2	6.4
Construction	6.4	9.4
Wholesale & Retail Trade	6.4	-
Ports and Shipping	4.8	6.3
Hotels and Catering	3.2	9.3
Water and Electricity	3.2	3.1
Agriculture	2.4	9.3
Pharmaceuticals and Medical	1.6	-
Gas/Petroleum	1.6	-
Government Services	10.4	-
Others	3.6	-
Totals	100.0	100.0

Source: Worker's Compensation Unit, Labour Division, Dept. of Commerce, Employment & Trade

Information below on the procedures may assist in assessing the performance of the scheme:

- When an accident occurs the employer completes an accident report form and submits it to the Labour Division or this is the outcome of the worker reporting directly to the Labour Division to initiate action,
- The worker obtains medical treatment and, where permanent disability is claimed, a medical report assessing the degree of incapacity,
- The Labour Division calculates the amount due according to the earnings and medical report and sends the request for payment to the employer who is given 3 months in which to make payment,
- Straightforward cases may then be paid within a few weeks or so, but quite frequently insurance companies query the awards and especially the medical assessments and insist on a medical examination by their own doctors which invariably produce lower assessments and make counter offers to the workers. Labour Division stated that they usually advise the

workers to accept these offers in the interests of settling these cases but the obstacle is that the workers are aware of the higher settlements proposed by the WC Unit and may tend to press for a more favourable outcome before agreement is reached usually on the insurance company terms. However, some cases may go to court and some claimants may obtain the help of free legal aid services, and

- In fatal cases the papers are sent to the courts with a list of persons known to be next-of-kin and the compensation is paid into the court for distribution. Labour Division has no record of outcomes but is aware that where customary practices are involved payments may be made to relatives other than the spouse and possibly other than the children. This issue is discussed in the following section.

(ii) *Fatal cases and gender issues*

From discussions on gender issues with the Permanent Secretary of the Ministry of Peace and Reconciliation, it appears that some changes in Family Law now under consideration would improve the entitlement of wives to matrimonial property and this may strengthen the position of surviving spouses when compensation is distributed.

The NPF does not use the courts for this purpose as this procedure was found to be unsatisfactory due to the number of cases where the widows, in particular, and also to a lesser extent the children, were excluded from the distribution or received inadequate shares. The account balance is distributed in accordance with valid nominations, but where there is no such valid nomination, NPF has to resolve the question of entitlement to the balance in the account which Section 33 (c) of the legislation stipulates has to be distributed "in accordance with the custom of the member to the children, spouse and other persons entitled thereto in accordance with that custom".

This entails extensive enquiries and consultations amongst community leaders, ministers of religion and Members of Parliament in order to determine the customary practices that should be followed in each case. Every effort is made to reach a consensus amongst family members and NPF aims to secure adequate payments to the spouse and children. However, widows may not benefit

in some instances whereas children are more likely to qualify for shares. In view of the trends in outcomes NPF intends to change the law so that surviving spouses and children will be the beneficiaries.

From a discussion with a magistrate, it was learned that in workers' compensation cases the next-of-kin are called for a hearing after 14 days. The basis of entitlement is that family members were wholly or partially dependant on the deceased's earnings at the time of the workers death. In general, the cases are likely to be settled and compensation paid as follows if there is:

- No spouse, to the parents,
- A de facto wife and children, the payment is made to the children, and
- A legal wife and children, the widow is the first beneficiary and the children second.

Where children are made beneficiaries, the courts opens trust accounts for them and these are managed by the court authorities in conjunction with the guardians of the children.

(iii) *Experience of compulsory insurance*

The Act prescribes that employers must take out insurance for their liabilities under the legislation. but it is widely assumed that many employers do not comply and provide the compensation directly. There are 3 main insurance companies in this field QBE, Tower and Solomon's Mutual Insurance Company (SMI). In October 2002 data on the workers' compensation insurance was supplied by the Controller of Insurance of Central Bank for the period from 1997 to 2001. The Controller supplied data for 2002 and 2003 but this was withdrawn because of discrepancies and it was learned that the data for 1997-2001 did not include SMI data which was not available whilst the data for 2002-2003 included SMI data, but certain queries were still unresolved. Consequently, the review of insurance data is confined to the 1997-2001 period .This is given in Table 17.6 below and shows the following:

- Fluctuations in gross premiums is noted with a high of SBD 4,537 234 in 1998 to only SBD 819,112 in 2001 or 18.6 per cent of the 1998 figure with a partial recovery in 2003 to SBD 2,041,331; reductions on this scale are attributed to both a decline in economic activity and to a number of employers finding the higher rates which

were introduced in recent years as too expensive and deciding to self-insure, despite the law, and leaving in question whether accident victims receive legal entitlements,

- Over the period from 1997-2001 claims expenditures varied from 14.65 to 52.38 per cent of gross premiums,
- Of the total gross premium income of SBD 13,076,885 only 26.55 per cent was paid to claimants, and
- No less than 49.64 per cent of premiums were declared as profits, some of which was transferred out of the country.

Table 17.6 Consolidated data on worker's compensation insurance 1997-2001

	1997	1998	1999	2000	2001
Gross Premiums	2,243,685	4,537,234	3,814,454	1,662,400	819,112
Reinsurance	113,632	285,981	239,287	117,809	55,176
Net Premiums	2,130,054	4,251,253	3,575,167	1,504,591	763,936
Net Earned Premiums	1,848,352	3,311,381	2,843,242	3,189,967	1,221,647
Cost of Claims - As % of gross premiums	328,661 14.65 %	1,008,182 22.22 %	917,823 24.06 %	787,594 47.38 %	429,041 52.38 %
Net Expenses/ Commission	449,282	498,166	810,157	974,015	476,118
Investment income	67,818	277,474	169,262	200,544	83,009
Profit	1,033,347	1,757,613	1,531,963	1,741,172	427,498

Source: Controller of Insurance, Central Bank

There has been no marked change in claims in subsequent years and it is assumed that the trends described above continued in 2003 and 2004. In many similar countries with this type of scheme, the structural weaknesses of the scheme are compounded by the tactics of some insurance companies in delaying and contesting claims in order to maximise profits thus exacerbating the difficulties of injured workers and their families. Another important issue is that a minor share of gross premium income is paid out to claimants and a significant proportion of premium income is lost to the scheme through marketing expenses, commissions and profits. This in contrast to a social insurance scheme in which employer premiums are retained in the fund for benefits and administration.

17.3.4 Views of stakeholders

In October 2002 extensive meetings were held with stakeholders over the whole range of social security issues and presented the experience of

the English-speaking countries of the Caribbean which had converted employer liability and defined contribution schemes into social insurance systems as relevant and useful for the Solomon Islands when formulating strategies for social security development. Workers' compensation was included in this review and it was agreed that the scheme dating from 1952 was long overdue for reform and that it would be appropriate to undertake comprehensive reform through the application of social insurance principles to the upgrading of health and income protection for victims of workplace accidents and their families. However, it was evident that the concepts and principles involved were unfamiliar to stakeholders in the Solomon Islands and some time would be needed to elucidate these and build up sufficient understanding as a basis for undertaking social dialogue on reform.

It is clear that the fundamental deficiencies of the present scheme are compounded by the serious flaws in the processes of claims settlement. These are characterised by extreme slowness, regular conflicts over disability assessment, avoidance of private insurance by a significant proportion of employers and gender issues in the system of distribution of compensation for fatal accidents.

One of the main suggestions on future development of social protection, which arose from discussions with the General Secretary of the Solomon Islands Council of Trade Unions, was that the activities planned under the NAPDW framework could present an opportunity to initiate a comprehensive reform of workers' compensation insurance so as to realise aims for rectifying decent work deficits in this sector.

17.4 Strengthening of workers' compensation protection

17.4.1 Options for reform

In the course of discussions on the range of problems in the field of workers' compensation the outgoing Commissioner of Labour referred to the possibility of all claims being managed by one insurance company SMI, thus freeing the OHS Unit to undertake more work in the promotion of higher standards of safety and health. The SMI was co-founded by SINPF in 1997 with 75 per cent equity ownership as the means by which social security development could be implemented. SINPF members were enrolled in the company's group life plan which provided cover for disability, death and health

risks. However, this was short-lived because of legal disagreements arising from SMI's ownership structure as the remaining 25 per cent is shared by the Workers Mutual Insurance Company of Papua New Guinea (15 per cent) and the General Manager (10 per cent). Consequently, SMI operates as an ordinary insurance company marketing a range of insurance products, although discussions with SINPF confirmed that SMI is still seen as having the potential to play a major role in the future development of social protection in the country if the legal problems can be resolved.

The suggestion to transfer claims management to SMI would not address any of the structural weaknesses of the scheme and there appear to be no advantages for the covered employees in the proposal if it means that SMI would become sole insurer for an unchanged workers' compensation scheme, still based on the outmoded principle of employer liability.

The aim of transferring responsibility for claims management so that OHS activities could be increased can be achieved as one of the benefits of restructuring the scheme on social insurance principles. The responsibility for the scheme would be vested in a new organisation leaving the Labour Division with more scope for the task of improving standards of occupational safety and health.

17.4.2 Conversion into a social insurance scheme

In most countries, an employer liability scheme of this type was usually the first stage of workers' compensation insurance as its implementation was relatively straightforward with the government department in an oversight role and the responsibility falling on each employer to provide compensation. The introduction of workers' compensation schemes was a significant step forward under the doctrine of employers' liability for no fault compensation (usually with no right to sue for damages). However, employer liability schemes are essentially limited as they impose liabilities on an individual basis and consequently are framed so as not to exceed the financial capacities of the employers within the scope of the legislation. Compulsory insurance ensures that liabilities are met but does not alter the essential principle of the scheme. This means that a balance has to be struck in workers' compensation schemes between, on the one hand, the needs of injured workers for comprehensive

medical care, including rehabilitation in certain cases, and adequate cash benefits throughout the contingency, and, on the other hand, the financial capacity of the average employer subject to the legislation; this is equally the case where fatal accidents occur and families need long-term financial support.

Consequently, countries wishing to improve standards of health and income protection and to strengthen accident prevention have found it necessary to change from individual employer liability to pooling of risks in a social insurance fund. This trend has developed in all types of countries both large and small developed and developing. As mentioned in section 4.4, during the preceding mission on social security issues in October 2002 stakeholders were briefed on the widespread adoption of social insurance in the English-speaking Caribbean countries with many similarities to the Solomon Islands as regards size of formal sectors and levels of economic development. The workers' compensation schemes in these and many similar countries are able to conform closely to the relevant ILO standards outlined above and to provide affordable and adequate protection for victims of work-connected accidents since all contributions are retained in an autonomous fund for the purposes of the scheme. This more effective use of resources enables the scheme to provide improved benefits including comprehensive medical care and pensions for long-term contingencies such as permanent disability and death of the breadwinner; this better ensures the protection of family members such as widows and children compared with the present system of lump-sums which are usually consumed in the short-term.

In the South Pacific Samoa has taken this step and has administered an accident compensation scheme for over 25 years which not only provides compensation for work injuries but plays a positive role in accident prevention in that country.

As a basis for formulating suitable policies and strategies for reform of workers' compensation stakeholders may need to determine the appropriate and feasible objectives for the restructuring of the present scheme. To assist this process the following section describes the main features of a social insurance scheme for work-related accidents and diseases.

17.4.3 Main features of a social insurance scheme for workers' compensation

(i) Overview

The key principle is the pooling of risks and finances in an autonomous fund for the purposes of providing various types of defined benefits to victims of work-connected accidents and their families. This is fundamentally different to an employer liability scheme, which operates without a fund, and the system of individual accounts in the SINPF. The fund assumes responsibility for the provision of benefits and is able to marshal the income so as to upgrade benefits and services to the covered workforce.

Another important point is that in comparison with an employer liability scheme for workers' compensation a social insurance scheme may adopt broader objectives, including:

- Strengthening of governance by bringing the scheme under the supervision and control of a tripartite board,
- Commitment to cover all employees with no distinction between manual and non-manual workers or on the basis of earnings,
- The provision of comprehensive medical care extending to all necessary forms of rehabilitation, and cash benefits designed for short and long-term financial support, including pensions for serious permanent disability and survivors of persons who die from work-related accidents and diseases, and
- Support by various means for occupational safety and health policies and programmes.

The legislation would specify the objectives of the scheme, the structure of the Board, its method of appointment, the details of benefits, system of financing and the administration of the scheme. The following sections provide more information on the key features of benefits, financing and administration and on support for accident prevention

(ii) Benefits

In order to illustrate the benefit system details of 6 schemes in Asia and the Pacific (Laos, Myanmar, Pakistan, Philippines, Samoa, and Thailand) are provided in Table 17.8. Information on 9 schemes in the Caribbean is given in Tables 17.9 and 17.10.

(iii) **Medical care**

As regards the principle that injured workers should be entitled to all necessary medical treatment, the Social Security (Minimum Standards) Convention and the Employment Injury Benefits Convention, (No. 121 of 1964 stipulate the principle that the medical benefits shall be provided *throughout the contingency* and free of charge to the insured workers who have suffered an accident or are diagnosed as ill due to an occupational disease. The Employment Injury Benefits Convention (No.121 of 1964) contains an additional provision of emergency treatment at the place of work of persons sustaining a work-related accident.

Social insurance schemes provide a wide range of medical care including surgery and hospitalisation which extends to the provision of artificial limbs and appliances with no cost or time limits at no charge to the injured persons. Samoa allows overseas medical treatment where this is considered to be medically necessary up to a maximum of WST 15,000, whilst Thailand is an exception in that it imposes a cost limit of THB 35,000 (about USD 920 at the current rate of exchange) and this can be increased to THB 50,000 in certain circumstances. In the Caribbean countries injured workers have access to the full range of medical treatment at the expense of the scheme and only Trinidad imposes a monetary limit

The social insurance schemes carry out accreditation programmes and patients are treated at the approved institutions or by medical or rehabilitation practitioners. In most cases, they are paid directly by the social insurance scheme, except in cases of emergency or other situations where reimbursement may be allowed by regulations. In any case, non-accredited providers are paid only for emergency services.

(iv) **Temporary disability benefits (TDB)**

The main features of TDB should be:

- No contribution conditions to apply,
- The rate should be related to recent earnings and set at a level which provides adequate income support but leaves incentives for return to work as soon as medically advisable, and
- Duration should be flexible enough for the various types of case which occur.

Although there is no standard pattern, it is evident from the examples in Annex 2 that a number of countries provide quite high rates of TDB (for example, 100 per cent of recent earnings in Laos, 90 per cent in the Philippines and 70 per cent in Samoa). Duration is extensive to allow for the serious cases for which the final medical assessment cannot be made for periods of months or even years. At some point if the beneficiary is still incapacitated for work a determination of permanent disability has to be made by a medical board, even if it is provisional. Similar high rates ranging from 65 per cent to 90 per cent are paid in the Caribbean schemes shown in Annex 3 table 2.

(v) **Permanent disability benefits (PDB)**

Rating and duration of the PDB awards.

Assessments of permanent disability by medical boards are guided by the schedule of disabilities specifying the degrees of loss of earnings capacity attached to the legislation. The decision also states whether the condition is accepted as permanent or should be reviewed after a certain period, such as 2 years. Most of such decisions are on relatively minor conditions with ratings below 10 per cent but all types of case occur over time from 1 to 100 per cent. The system of benefit rates is usually based on the level stipulated for permanent total disability (PTD) with lower percentages entitled to that percentage of the PTD rate. Therefore if 70 per cent of recent earnings is payable for 100 per cent disability (PTD), the amount for permanent partial disability (PPD) of 50 per cent would be 35 per cent of recent earnings. Where the medical board certifies that recipients of PTD require the constant help or attendance of another person, the benefit will be increased by a constant attendance allowance such 25 per cent of the PTD rate.

Benefits for a long-term contingency should be in the form of a pension, as prescribed in ILO Conventions such as Convention Nos. 102 and 121 as a more effective method of income protection, or a lump-sum. Pensions are payable in the Caribbean schemes and in Laos, Myanmar, Pakistan, Philippines, and Thailand (but in the latter case these pensions are not payable for life), whilst Samoa provides pensions only for 80 per cent or more disability and lump-sums otherwise. Countries providing pensions undertake to maintain their value through periodical increases.

Commutation of low level pensions. An exception to the principle of pensions for permanent disability is made in the case of slight permanent disability where the benefits may be paid in lump sums, calculated on actuarial principles. Lump-sum grants for the pensions below a level such as 20 to 30 per cent are calculated according to the duration of the assessment where this is provisional or for life, in which case the payment is determined according to the actuarial tables giving the present value of the benefits.

(vi) ***Benefits in respect of deaths from an employment injury***

In the case of death from an employment injury, the first benefit is a funeral grant and survivors are provided with pensions. The basis for benefit is usually the amount or entitlement of PTD payable to the deceased or to which he/she would have been entitled had a claim been made to PTD. For example if 70 per cent of recent earnings is payable for 100 per cent disability (PTD) this sum would be the maximum amount payable for all survivor pensions in the vent of a worker's death from a work-related accident.

Issues arise on the eligibility of dependant relatives and schemes necessarily design such benefits in accordance with family structures. Whilst widows are accepted as priority beneficiaries some schemes restrict widowers rights by imposing additional conditions such as that he is disabled and unable to work (this is the position in the Trinidad scheme summarised in Table 17.9. In the legislation for a social insurance scheme it is possible to ensure gender equality and to include de facto spouses in the definition of survivors, if this is considered to be appropriate when the scheme is designed. The basic point is that benefits are payable by the scheme, according to entitlement as prescribed under the social insurance legislation and is not left to the discretion of the courts.

Children may be entitled up to the age 18, or 21 if still undergoing full time education, usually with no age limit for disabled children. Parents are included in some schemes only if the prime beneficiaries have not received the full entitlement of 100 per cent of the amount of PTD the deceased was receiving or would have received if this had been claimed prior to death. The widow(er)s may receive 40 -50 per cent and children 20-30 per cent and such awards change

as children reach the maximum age allowing other persons to qualify.

Examples of survivor's pensions in Annex 2 show variations in the actual rates allocated to spouses and children within the framework of the distribution of the PTD rate. However, the schemes in the Philippines, Samoa and Thailand also involve rights to lump-sums and Thailand limits the duration of the survivors pensions to 8 years. Provision of pensions is of special concern to widows and children who predominate amongst survivors for whom a guaranteed regular payment may ensure a reasonable standard of living and allow children to remain at school.

17.4.4 Financing of the scheme

Once a scheme is designed provisionally an actuarial valuation should be carried out to determine the costs and establish two financial systems. For the ***medical and short-term cash benefits (TDB)*** the annual assessment or *pay-as-you-go* financial system is appropriate. Under this system the resources raised year by year from contributions and other sources balance the expected costs year by year. In practice, a contingency reserve is needed against unforeseen changes in expenditures or falls in income. This may be 6 months average benefit expenditure for TDB and medical care.

For ***long term benefits***, the principle is full funding of liabilities in the year in which these are incurred through the system of constituent capitals. This means that funding of all future payments for disability pensions and grants, funeral grants and survivors pensions awarded in a year is secured in that year; this is a different approach to the financing of old-age pension schemes and ensures that these costs are borne by the currently contributing employers and are not passed on to future contributors. Consequently, this system takes into account the future costs of pensions and lump-sum payments projected to be awarded each year. Another responsibility of the scheme is to increase pensions periodically in order to maintain their value. These requirements are taken into account in the actuarial valuation.

The importance of investment policies should be stressed as the financial system assumes adequate returns on investment of reserves and similar experiences to those of SINPF referred to in section 3.3 would present obstacles to the establishment of a social insurance scheme in the Solomon Islands.

(i) *Contribution systems*

Since employers are liable for compensation they are required to finance workers' compensation schemes in almost all countries but the question arising is whether these employer premiums should be uniform for all enterprises, as in other branches, or risk-rated as in private insurance. Most developing countries use uniform rates between 0.75 and 1.25 per cent. The main argument for uniform rates is that in comprehensive schemes covering a wide range of employees for several or all nine social security contingencies the risks should be reasonably well balanced over time, and, furthermore, that risk-rating may not be a reliable indication of future experience and cannot easily be applied to smaller firms. Schemes collecting uniform contributions argue that the issue of prevention and occupational safety and health is the responsibility of another part of the government machine and it is enough to supply information and statistics on accidents to these authorities. The proponents of risk-rating contend that this system provides strong incentives for strengthening safety measures and accident prevention, and also avoids the price distortion which results from low-risk industries subsidising high-risk industries.

The system uses industry codes to determine the basic contribution for each enterprise according to the industrial sector it belongs to. For example, Japan has 36 grades covering 53 industrial categories with the lowest rates 0.6 per cent (commerce) and the highest 14.9 per cent (for the construction of hydro-electric dams and tunnels). Commuting accidents are a uniform 0.1 per cent for all enterprises; Thailand has listed 131 such codes. The industry codes should reflect the average experience of all enterprises in an industrial category and the second element is the merit or experience rate of individual enterprises reflecting the costs of claims over a 3 year period and applied in year 4 and may result in a reduction, increase or no change in the contributions assessment.

Amongst schemes in Asia and the Pacific examples of those using uniform rates are India, Malaysia, Philippines, Samoa and Vietnam, which also applies in all of the Caribbean schemes, whilst risk and experience rating is preferred by Indonesia, Japan, New Zealand, South Korea and Thailand. In China and Mongolia the risk categories have been simplified into 3 for which the contribution rates

are 0.5 per cent, 1.0 per cent and 2.0 per cent in China and 1, 2 and 3 per cent respectively in Mongolia. This is intended as a broader risk rating system which is easier to administer whilst still providing penalties and incentives with the aim of reducing accident frequencies.

17.4.5 Administration

The operation of the scheme requires the registration of employers and their employees, establishing databases, collecting and recording contributions, inspections of employers' records and actions against defaulters, processing of claims, organisation of medical providers and provision of medical and cash benefits. Employers are required to pay contributions to the new scheme and it is the latter which assumes the liability to provide benefits. This strengthens the position of workers who suffer accidents as they are no longer claiming against their employers and the employer's insurance company. The scheme is ready in principle to approve claims meeting legal requirements and not to delay or contest liability in the courts. Disability assessment, now a root cause of delays, is entrusted to medical boards organised and financed by the scheme which consist of independent doctors and specialists. Decisions on claims and other issues are subject to a right of appeal by claimants which are determined by independent appeal boards organised and financed by the scheme. These consist of a legally qualified chairpersons assisted by two assessors nominated by organisations representing employers and workers respectively and deal with appeals in an informal manner as possible and without imposing any charges on appellants. This applies also to appeals against the assessments by medical boards which are adjudicated by medical appeal boards.

The main functions are common to contributory schemes and call for an organisational and administrative framework and a network of offices throughout the country similar to that of SINPF. Taking into account the needs for economy and efficiency SINPF would be the first option for implementing this type of scheme as a separate branch with its own autonomous fund, whilst another option would be for the new scheme to be established separately but for SINPF to collect contributions on behalf of the scheme. The issues on the adoption of either uniform or risk-rated contributions need to be resolved as a basis for a decision on how to collect from employers.

In other countries there is no set pattern. For example, the scheme in Samoa was established by the Accident Compensation Board (ACB) under the Ministry of Labour rather than within the framework of the Samoa NPF under the Ministry of Finance. Initially, the NPF collected contributions at the rate of 1 per cent by employers on behalf of the ACB, but later the board took control of this function and contributions are now collected separately. In Thailand the workers' compensation scheme introduced in 1974 pre-dated the comprehensive social insurance scheme mandated by the 1990 Social Security Act. The new Social Security Office (SSO) established to implement the Act has absorbed workers' compensation as a division within the overall organisation, but it operates separately in such matters as contribution collection as it continues to collect risk-rated contributions on an annual basis whilst SSO operates the usual monthly cycle for the other branches of social security.

17.4.6 Accident prevention

Many schemes providing medical care and income protection after work-related accidents occur may wish to support accident prevention for such reasons as:

- Preventing accidents and diseases, or minimising them, is a much better service to workers than compensating them or their families after the event,
- Fewer accidents and work absences contribute to higher productivity, and
- Benefit costs are reduced.

However, accident prevention normally is funded from general revenues or special levies and employers may object to use of their social insurance contributions for this purpose; furthermore, the scope for action by schemes is limited where another government institution, such as the Labour Division or factory inspectorate, has the legal responsibility for OSH. In these circumstances, the schemes have the role of reporting accidents and supplying statistics to the OSH authority so that the latter can obtain a clear picture of the incidence and nature of occupational risks for the purpose of targeting its programmes. In addition, the scheme may hold seminars and similar events to promote safety activities in sectors producing significant numbers of claims or otherwise appear to be most effective for the purposes of the scheme.

17.5 Development of reform proposals

17.5.1 Introduction

The project noted the keen interest of main stakeholders in introducing social insurance techniques for the further development of social protection in view of the fact that these are the principal means by which the great majority of countries worldwide have achieved considerable progress in expanding and strengthening social protection for the benefit of their populations. These developments have taken place in all types of countries, whether industrialised, developing, or economies in transition. It was to create a better understanding of social insurance and its relevance to the Solomon Islands that in the 2002 mission the progress made in the English-speaking countries of the Caribbean was explained to stakeholders in view of the many similarities in the size of the population and formal sectors of employment. Furthermore, these countries initially introduced national provident funds but responded to ILO advice on the conversion of these into social insurance pension schemes. Some have also progressively expanded to incorporate other contingencies such as workers' compensation, sickness and maternity. Consequently, the majority of the Caribbean countries are operating reasonably comprehensive schemes for a combined employer and employee contribution little different to that charged by SINPF.

These points can be assessed by reference to Table 17.9. This lists 10 countries, 6 of which have populations below 100,000. The schemes feature old-age pensions, sickness and maternity and workers' compensation, except for 2 which still run employer liability schemes for work injuries. As explained in the table, the pension schemes are not fully funded and will raise contributions in the future. At present only 2 collect in excess of the 12.5 per cent payable to SINPF and of these one country is also providing unemployment insurance and the other collects a total of 7 per cent for a medical benefits scheme.

17.5.2. Planning of reforms

There is no reason to doubt that the progress achieved in similar countries is attainable in the Solomon Islands provided that it is recognised that employer liability schemes are essentially outdated and are not capable of being adapted to achieve any significant improvements or to conform to relevant ILO standards in regard to

workers' compensation. However, it was apparent during both the 2002 and this mission that the lack of experience of social insurance concepts and principles in the country is an obstacle to moving rapidly forward to plan and design new and improved schemes. For this reason, the recommendation in the 2002 report that a tripartite national seminar should be held to elucidate the main new concepts, address the key issues and to establish a basis for planning reforms in depth is again endorsed.

If a seminar can be approved the question is whether it focuses solely on reform of workers' compensation or deals also with the major issues concerning old-age protection and limited coverage that are identified in NAPDW. On the assumption that a seminar would cover the whole range of major issues in social protection, the core topics could be:

- Principles and practices of social security, with emphasis on social insurance,
- Financing of social security schemes,
- Experiences of selected countries in reforming and developing social protection-examples of conversion of workers' compensation schemes and national provident funds, and
- Extension of coverage.

National experts should have a leading role in presenting the experiences of current schemes and results of any surveys or enquiries into the circumstances of beneficiaries. It is hoped that this seminar will adopt a series of conclusions and recommendations and formulate a plan of action as well as to establish a working group or similar body to oversee the implementation of the action plan. Close coordination with related activities under NAPDW would be essential.

The workers' compensation proposals are contained in the national action plan and road map contained in Chapter 20.

17.6 Conclusions and recommendations

The project has confirmed the continuing validity of the conclusions and recommendations of the study in October 2002 on the urgency of converting the employer liability scheme for workers' compensation into a social insurance scheme in order to rectify serious deficiencies across the spectrum of coverage, scope of protection, standards of medical and cash benefits, gender-specific needs, service to accident victims and their families and cost-effectiveness. Such a conversion would utilise the same or similar levels of resources as now to raise standards significantly across the board, strengthen governance and provide some support for occupational safety and health programmes. Consequently, there is much to gain from effecting this change and it is recommended that as it is greatly overdue it should be accorded a high priority.

Another recommendation is that a tripartite national seminar on the development of social protection should be organised for the purpose of elucidating and endorsing for future use in the Solomon Islands the main concepts and principles involved in converting national schemes to the social insurance system of pooling risks and finances, as widely practised in all types of countries worldwide. This seminar could be focussed solely on workers' compensation. The whole range of social protection issues already identified in the National Action Plan for Decent Work (NAPDW), including limited coverage, the future sustainability of SINPF and the improvement of protection in respect of health care, sickness, maternity unemployment and old-age will be covered in detail during the feasibility studies as part of the project *Social Security in Pacific Countries*.

It is hoped that collaboration between the government of the Solomon Islands and the ILO can provide clear perspectives for and commitments to the transformation of workers' compensation into a much more effective scheme with a wider scope of protection and higher benefit standards conforming more closely to relevant ILO standards. This would make a significant contribution to rectifying decent work deficits and to any national programme for the progressive enhancement of social protection for a larger proportion of the population of the country.

Table 17.8 Information on workers' compensation insurance benefits in selected countries

Country	Medical	TDB	PDB	Survivors
Laos	Full range of medical care and rehabilitation provided under social health insurance scheme.	100 % of earnings for first 6 months and 60 % for next 12 months.	Rate is 67.5% of earnings multiplied by percentage loss of earnings capacity.	Spouse or parent receive 50% of average earnings and each child 15% up to maximum PTD rate.
Myanmar	Social Security Board clinics and hospitals provide out and in-patient and out-patient services and drugs.	66 2/3 of earnings payable from day one for maximum of 52 weeks.	66 2/3 of earnings for total disability and a percentage for partial disability according to percentage loss of earnings capacity. Below 20 % lump-sum payable equal to 5 years pension.	Surviving spouse pension about 27 per cent of earnings of deceased and orphans about 20 per cent Maximum for all pensions 662/3 of earnings.
Pakistan	Social security clinics and hospitals provide general medical care, specialists, hospitalisation surgery and transportation.	60% of earnings, 100% in Punjab and Sindh payable after 3 day waiting period (waived in Punjab) for up to 180 days.	75% of earnings (100% in Punjab) and percentage for partial disability according to loss of earnings capacity.	60% of total disability pension for widow or needy disabled widower. Orphans under age 16 -20% or 40% for full orphan. If no spouse 20% for dependant parent. Total payable for all pensions is 100% of PTD.
Philippines	Medical, surgical and hospital services, appliances and rehabilitation.	90% of average wage in best 6 months out of last 12 months from first day for up to 240 days in a calendar year. Minimum 10 pesos per day Maximum 200 pesos per day.	115% of the sum of PHP 300 plus 20 % of average monthly credited earnings for each year of contribution in excess of 10, or 115% of 40% of average monthly credited earnings, or PHP 2000, whichever is the higher. Plus a supplement of the higher of 10% of pension, or PHP 250, for each of 5 youngest children under age 21. Partial disability is PTD rate payable for periods related to degree of incapacity. Minimum pension is PHP 2,000 per month.	Survivors entitled to 100% of PTD plus dependants supplement of 10% per child for 5 youngest children under age 21. The insured's monthly pension is payable for some categories of survivor for up to 60 months. The grant must be not less than PHP 120 000 in total.
Samoa	Reasonable medical expenses for first aid, dental care, transport, surgery and hospitalisation, plus artificial aids and rehabilitation Overseas treatment up to maximum sum WST 15,000.	70% of earnings subject to minimum of WST 35 per week up to maximum of WST 400 per week. Maximum duration is flexible.	For disability of 80% or more: a pension of 70% of earnings for life for 100% disability and proportionate amounts for lower assessments. For disability lower than 80%: lump-sum of up to WST 8,000 according to assessed degree of incapacity.	A lump-sum of WST 20,000 to dependants plus weekly compensation of 70% of wages for up to 4 years subject to a WST 200 a week maximum.
Thailand	All necessary medical, surgical and hospital services up to maximum cost of THB 35, 000 or up to THB 50,000 in special cases.	60% of wage is payable after 3 days (payable later if incapacity lasts more than 3 days) Minimum monthly benefit is THB 2,000 and maximum is THB 9,000.	PTD is 60% of average monthly wage payable for 15 years. For partial disability 60% of earnings payable for up to 10 years according to degree of incapacity or as a lump-sum.	60% of earnings payable for 8 years or as lump-sum Pension amount shared between spouse, parents, children under age 18 (no age limit if student or disabled).

Main source: Social Security Programs throughout the World Asia and Pacific 2002 (Social Security Administration of USA.)

Table 17.9 Overview of social insurance schemes in selected English-speaking Caribbean countries

1 Country and population	2 OAP	3 SB/MB	4 Worker's Compensation	5 Unemployment Ins.	6 Totals
	Er/Ee	Er/Ee	Er/Ee	Er/Ee	Er/Ee
Antigua-67,000	5.0/3.0	OAP rate	EL		8.50/6.50=15.0%*
Barbados-267,000	5.25/5.25	0.82/0.82	0.75/nil	0.75/0.75	7.576.82=14.39%
BVI-21,000	3.25/3.25	0.75/0.75	0.50/nil		4.50/4.00=8.50%
Dominica-69,000	7.0/3.0	OAP rate	EL		7.00/3.00=10.00%
Grenada-89,000	5.0/4.0	OAP rate	OAP rate		5.00/4.00=9.00%
Guyana-76,000	7.2/4.8	OAP rate	OAP rate		7.20/4.80=12.00%
St. Kitts-38,000	5.0/5.0	OAP rate	1.0/nil		6.00/5.00=11.00%
St. Lucia-147,000	5.0/5.0	OAP rate	OAP rate		5.00/5.00=10.00%
St. Vincent-116,000	3.5/2.5	OAP rate	0.05/nil		3.55/2.50=6.05%
Trinidad-1.2 million	5.6/2.8	OAP rate	OAP rate		5.60/2.80=8.40%

Source: Social Security Programs Throughout the World 2003.

*Includes 3.5 per cent each by employers and workers for a Medical Benefits Scheme.

Notes on Columns

1. Country – BVI means British Virgin Islands
2. OAP means Pension Branch covering old –age, invalidity and survivorship. Er/Ee means employer/employee. Contribution rates are percentages of insurable earnings subject to a contribution ceiling. These schemes are not fully funded and contribution rates are expected to increase in the future. Usually the self-employed are covered by payment of the combined contribution of employers and employees.
3. SB/MB means sickness cash benefits and maternity cash and some medical benefits. Where the contributions are not separated branch by branch (Barbados) the entry "OAP rate" indicates that the contributions in column 2 also finance the SB/MB branch.
4. Most of the above countries have converted the Worker's Compensation Schemes relying on employer liability into social insurance schemes for which employers pay their contributions into the Worker's Compensation Insurance Fund of the social insurance organisation. This transfers liabilities for benefits to the Fund.
5. Unemployment insurance is the branch of social security for insured workers who are made redundant and are available for and capable of further employment.
6. The total contributions are collected by the social insurance organisation and allocated to separate accounts or funds for each branch of social insurance. The costs of benefits and administration are drawn from the respective branch funds. The integrated schemes are managed by tripartite Boards

Table 17.10 Summary of employment injury insurance schemes

1 Country	2 TDB	3 PTD	4 Medical Care	5 Survivorship
Barbados	90%	90%	Reimbursement of expenses	Dependent spouse 50%; Child 16.66-33%
BVI	75%	75%	Full range of treatment	Spouse 37.5% and 37.5% for children & other survivors
Dominica	60%	60%	Schedule for payments	Spouse 50% of insured's pension payable at age 50. Child 25% (331/3 if full orphan) to age 16 or age 8 if student. Maximum 100% of insured pension
Grenada	70%	75%	All expenses	Spouse-75% of PTD Child-25% of PTD Others 25%
Guyana	70%	70%	Full range	Spouse or parent 35% of earnings Each dependant 11.66% Max. 70%
St. Kitts	75 %	75 %	Reimbursement	Spouse- 50% PTD rate Child-& others 1/6 th
St. Lucia	65%	65%	All expenses	Details not given
St. Vincent	70%	70%	Full range of treatment	Spouse 35 % of earnings; Child 11.6%
Trinidad	67%	67%	Expenses up to monetary limit	Widow 60% Widower 60% if disabled & unable to work Child & parent 30%

Notes on Columns

2&3 TDB means temporary disability benefit PTD means permanent total disability benefit

2. No qualifying conditions apply if accident certified as work-connected. Percentage is of insurable earnings. Usually payable until recovery or time limit reached or permanent disability determined.

3. Rate is for pensions in respect of 100 per cent disability and for lower assessments pension rates are proportionate 50 per cent disability means 50 per cent of the full rate. For low assessments, such as below 20 or 30 per cent a grant is payable instead of a pension.

5. Survivors pensions are usually based on PTD rate (but some schemes use average earnings) subject to a limit of such as 100 per cent of base (exceptions are stated where information is available). A funeral grant is payable in addition to survivors pensions.

Chapter 18 Maternity Protection: Principles

18.1 Introduction

This chapter looks at issues related to the possible extension of maternity protection in Solomon Islands.

The first part examines the nature of maternity protection policies internationally, with a particular focus on the nature and coverage of paid maternity leave.

The second part looks at the situations in Solomon Islands, and examines the implication of extending the coverage of maternity protection. It concludes that the currently feasible options relate mainly to women in formal employment, essentially the groups now covered by provident fund membership. However, options for women in the informal economy are also discussed.

The third part looks at the possible costs of extending paid maternity leave in Solomon Islands, using a model developed for the purpose. The indicative conclusions are that paid maternity leave in line with ILO Conventions for those in formal employment could be funded by relatively small levies on the payrolls currently covered by provident fund membership. However, the figures differ somewhat for each of the countries.

Section 18.14 sets out the costing methodology using a calculation model to estimate indicative costs of paid maternity leave and section 18.15 sets out a standard model of paid maternity leave for possible use in each of the five countries.

18.2 The nature of maternity protection programmes

All developed countries and most developing countries have a range of maternity protection programmes designed to cater for the needs of women workers who give birth to children. These programmes have been promoted by a series of ILO Conventions focussing on the rights of women workers, and the measures needed to promote gender equality in employment.

Key components of maternity protection programmes include the following:

- Free or subsidised health and maternity care, which may include pre-natal medical care, delivery, and post-natal medical care,
- Paid maternity leave for women who have to give up paid employment for a period of time because of pregnancy and childbirth,
- Maternity grants and/or nursing allowances to cover set up expenses and some ongoing expenses associated with having a baby, and
- Employment protection for the woman concerned.

In addition some developed countries (e.g. Sweden) may also provide for a period of paid parental leave for fathers. However, there is no ILO standard on this issue.

The most recent ILO analysis indicates that the vast majority of countries now provide for cash benefits during maternity leave for at least parts of their workforces. A further rather small group of countries which do not yet provide paid maternity leave may provide for a period of statutory unpaid maternity leave for women workers, with job preservation for those who take this leave. This is the situation in Australia, and was the situation in New Zealand up till the year 2002, though New Zealand now has paid maternity leave.

Some countries also extend maternity leave to cases of adoption of children.

The recent period has seen some increases in maternity protection, especially in provisions for maternity and parental leave in a number of developed countries. Currently the most extensive maternity protection programme coverage is in Europe and Central Asia. However, in the Pacific region developments in maternity protection have tended to lag behind changes elsewhere.

Data quoted in this paper is the latest available from *Social Security Programs Throughout the World*, and the 2005 ILO publication *Maternity at Work* or from later material on web sites such

as the Colombia University Clearinghouse on International Developments in Child Youth and Family Policies, or from national social security websites. In some cases the national programme details will have changed since the material cited in this paper was made available.

18.3 Purpose of the programmes

Maternity protection programmes have a range of objectives:

- To ensure that both mother and baby receive adequate medical care,
- To cover at least part of the additional medical and other costs associated with pregnancy and childbirth,
- To provide for a period of leave for a mother to move through the later stages of pregnancy and to recover from childbirth,
- To permit mothers (and sometimes fathers) to withdraw from paid work for a period to look after the baby,
- To provide income replacement for a period of withdrawal from the paid workforce,
- To protect the employment of the women workers concerned, and ensure that the same job or an equivalent job can be resumed on return from maternity leave, and
- To contribute towards greater gender equality for women workers.

In some developed countries with sub-replacement fertility rates there may also be an objective of boosting the birth rate, though this is not generally so in developing countries. However, in the case of France maternity leave is extended from 16 to 26 weeks for the third child.

18.4 ILO conventions

Paid maternity leave and adequate medical care for mothers and children were early ILO priorities. Convention No 3 of 1919 laid down the principles, which included provision for 12 weeks paid maternity leave paid for out of public funds or a system of insurance for women working in public or private commercial or industrial organisations.

Convention 103 of 1952 also provided for 12 weeks of paid maternity leave, which was to include at least 6 weeks of post-natal cover. It also extended coverage to women in non-industrial and agricultural operations, including

women wage earners working at home. The level of payment was to be no less than two-thirds of the woman's normal earnings. Medical benefits were to include pre-natal, confinement and post natal care by a midwife or qualified medical practitioner, as well as hospitalisation if necessary.

The most recent convention is ILO 183, the Maternity Protection Convention of June 2000. This provides for 14 weeks of paid maternity leave for all employed women. Its recommendation 191 also encourages state parties to extend the period of paid leave to 18 weeks. The two thirds of earnings criteria is repeated, plus the requirement in Article 6 that cash benefits shall be of a level which ensures that the woman can maintain herself and her child in proper conditions of health and with a suitable standard of living.

ILO convention 183 Article 2 (1) extends maternity protection rights to all women workers, including those in atypical forms of dependent work. However, Article 2 (2) does allow ratifying members, after consulting with the representative organisations of employers and workers concerned, to exclude wholly or partly from the scope of the convention limited categories of workers when its application to them would raise social problems of a substantial nature. How coverage is to be applied in Pacific Island countries with large proportions of the labour force involved in informal and subsistence activities is one of the key policy issues needing to be addressed.

A consistent theme in ILO conventions is to advise against individual employer liability for maternity pay except in narrowly specified conditions, and for benefits to be normally funded from public funds or insurance premiums. Exceptions are admitted where there has been agreement between government, employers, and workers, or where individual employer liability was a pre-established component of national legislation.

To date only a minority of ILO members have fully ratified all of the conventions. For Convention No 3 there were 33 ratifications, for Convention No 103 there were 40 ratifications, and so far for Convention 183 as of February 2005 there have been 11 ratifications. However, while not fully complying with all of the Convention requirements, most member states

have instituted some forms of maternity protection legislation, usually including paid maternity leave for at least some sections of the population of working women. Sometimes the reasons for not ratifying the convention are relatively minor technical differences in the programme content or coverage compared with the ILO Convention standard. For example, by the end of 2004 while only 11 of 142 countries analysed had ratified Convention 183, fully 44 per cent of them provided 14 or more weeks of maternity leave.

18.5 Organisation of maternity protection programmes

Characteristically both the medical expenses associated with childbirth and the income replacement costs of paid maternity leave are a relatively low percentage of total social protection costs in countries with these programmes. For example the New Zealand programme for paid maternity leave costs the equivalent of only just over 0.1 per cent of wage and salary payments. This is a particularly low figure, reflecting the low proportion of eligible births, and low wage replacement ratios for many women workers on paid maternity leave in New Zealand. However, most paid maternity leave programmes cost less than 0.5 per cent of salary and wage payrolls. Because of this, the costs of maternity protection are usually merged in with other larger social programmes for administrative convenience. Three patterns tend to predominate:

- In a number of countries both maternity health care and paid maternity leave are part of a wider social insurance scheme which also characteristically covers retirement pensions, sickness and invalidity benefits, and health care costs,
- In another group of countries both maternity medical costs and paid maternity leave are part of the health insurance system, and
- In a third group of countries paid maternity leave is administered in conjunction with cash sickness benefits or cash social insurance, while maternity medical costs are covered by the separate public or national health system.

However, there are also a few countries with somewhat different patterns. In New Zealand for example paid maternity leave is funded from

general taxation, and the scheme is administered by the Inland Revenue Department. In Canada there is a linkage to unemployment insurance. A few countries have individual employer liability schemes for paid maternity leave. This is the case for several Pacific Island countries.

A common pattern is for one organisation such as a social insurance or health insurance fund to be the delivery agent for assistance, with another arm of government such as a Ministry of Social Affairs, Labour, or Finance being responsible for oversight of the organisation

18.6 Coverage of the schemes

The coverage of maternity protection programmes depends on the nature of the scheme in each country. Distinctions need to be made between the different components of programmes, particularly between maternity medical expenses and paid maternity leave.

In a few developed countries **paid maternity leave** is available to all residents (e.g. Sweden), or virtually all. In Mongolia however coverage is limited to citizens. In the Netherlands the unemployed are included. More commonly paid maternity leave in practice applies largely to formal economy workers covered by the relevant social insurance or sickness insurance schemes, or in some cases statutory employer provision schemes. In some developed countries the self-employed may be covered, while in others they may only be included if they have voluntarily joined the relevant contributory insurance system.

In many developing countries there is no coverage for informal sector women workers, who may be the majority of women workers but are outside formal employment-linked systems. In some other countries where maternity provision is part of the social insurance system, only employees of enterprises with more than a specified number of workers or covered, or else coverage is restricted to certain industries or geographic areas.

- In the United States only 5 of the 50 states have paid maternity leave, and unpaid leave applies only to enterprises with 50 or more employees,
- Domestic workers are excluded from coverage in a number of countries, including

- Argentina, Greece, the Philippines and Venezuela,
- Members of the employer's family are excluded in some other countries, including Egypt, Korea and Uganda,
- Agricultural workers are excluded in Bolivia, Egypt, and Sudan,
- Casual or temporary workers are excluded in Kuwait and Panama,
- Members of the Armed Forces are excluded in Greece, Somalia, and South Africa,
- Managers and business executives are excluded in Paraguay, the Philippines and Singapore,
- Workers earning over a certain ceiling are excluded in the Dominican Republic, El Salvador, and Mauritius,
- Civil servants are excluded from the national scheme in a large number of countries, (e.g. Japan, the Philippines and Mexico) but usually covered by separate public sector schemes, and
- There may also be other legal limits on coverage. For example in Belize coverage of sickness and maternity benefits is restricted to the 14-64 age groups.

Coverage of **maternity medical costs** is usually wider than that of paid maternity leave. Maternity medical cover often extends to wives of insured male workers as well as insured women workers. In countries with national health systems, free or low cost maternity medical care may be available to the whole population. In countries without national health systems there may still be social assistance to provide free or low cost maternity medical care to low income mothers.

It should be noted that full implementation of ILO Convention 183 requires maternity protection coverage to extend to all women employees, with very narrowly prescribed exceptions.

18.7 Conditionality

All countries attach some conditions to at least part of the maternity protection scheme benefits. In countries where entitlements are tied to employment-linked contributory systems conditionality usually includes:

- A specified minimum period of scheme membership or qualifying employment. For example in Grenada a woman claiming benefits must have been in covered

employment for 30 weeks, including 20 in the more recent period preceding claim eligibility. In the Bahamas the requirements are 50 weeks paid up membership, including 26 paid in the year before the birth. In Peru the woman must have been covered at the time the child was conceived. However, in Russia the woman merely has to be registered, while in Sweden coverage is for all residents. The Netherlands includes unemployed as well as employed women in coverage.

- For paid maternity leave the requirement is usually that the claimant must stop paid employment for the period claimed. In cases where a voluntary earlier return to paid work occurs, the period of paid maternity leave is reduced accordingly.
- Some countries may limit the number of pregnancies covered. For example, in Singapore the coverage is limited to the first two children. Egypt allows maternity leave only twice during a period of employment. Sri Lanka cuts the leave from 12 to 6 weeks for a third or subsequent child.

There is also a type of *implicit conditionality* where levels of payment for maternity leave are linked to covered wages, since with these arrangements people with limited prior earnings would receive limited paid maternity leave. In the U.K a woman worker must have been earning 80 pounds a week in the relevant period to qualify for statutory maternity pay, or at least 30 pounds a week to qualify for the lower maternity allowance.

It should be noted that ILO Convention 183 requires that the conditions set to qualify for cash benefits should be such to that they can be satisfied by a large majority of the women to who the convention applies.

18.8 Periods of maternity leave

Most current maternity leave schemes provide for 12, 13 or 14 weeks paid leave, usually in the form of 6 weeks prior to delivery of the baby, and 6 to 8 weeks after this.

An increasing number of countries have moved up to the new ILO minimum standard of 14 weeks. However, a few countries provide for

longer periods of leave. Austria, the Netherlands, and France provide 16 weeks, Russia and Estonia 140 days (20 weeks), the U.K. 26 weeks, Norway 52 weeks, and Sweden 390 days of parental leave, of which 30 days must be taken by the father. A number of countries also provide for additional leave for special cases where there are complications of pregnancy or of child or maternal health. In Barbados for example, an employee is entitled to an extra six weeks of leave for illness arising from the birth.

A few countries provide well under the periods set in ILO conventions. South Korea provides only 8 weeks of paid maternity leave, and Jamaica 8 weeks. Singapore normally provides only 8 weeks, though this can be extended in certain conditions.

A few countries have a tiered approach to maternity leave. An initial period may be paid, and then a second part unpaid. Greece provides paid maternity leave for 17 weeks, but thereafter unpaid leave for up to 3.5 months for each parent.

18.9 Who Pays?

There are a number of different payment arrangements for funding maternity protection schemes, which usually reflect the funding arrangements applying to wider social protection schemes. In principle the costs may be borne by employers, the employees or other insured persons, or by the government.

- Individual employer liability schemes are not very common, but exist in Argentina, Bermuda, Botswana, Congo (Kinshasha), Mauritius, Saudi Arabia, Hong Kong, and Singapore. In the Pacific, individual employer liability schemes exist for Public Sector employees in Fiji, Kiribati, Samoa, the Solomon Islands, and Vanuatu, and for private sector employees in the Solomon Islands and Vanuatu. The U.K. also has an initial employer liability scheme in the form of statutory maternity pay. However, the employer can then claim a rebate from a common fund.
- Collective employer liability schemes in the form of employer-funded social insurance are found in Sweden and Peru, where the employers pay all of the insurance premiums concerned.

- Shared contributions between employers and employees in the form of jointly funded social insurance are the most common pattern in the great majority of countries, both developed and developing. The premium costs are rolled into the premiums covering wider social insurance or health and sickness insurance covering employees.
- Arrangements where employees or other insured persons pay all premium costs for maternity leave insurance cover are uncommon, but are found in Kenya, Poland, and Chile. In Switzerland the insured person must also pay all the premium costs unless their employment agreement specifies otherwise.
- The Government may share some of the costs with employers and employees. This pattern of partial government contributions or deficit funding is found in France, Germany, Italy, Netherlands, Brazil, and Belize.
- The Government may fund all costs out of taxation. Government tax funding is common for maternity medical costs in national health systems, but rare for paid maternity leave. In New Zealand however government funding also extends to paid maternity leave, which is funded from general taxation.
- The system may be a mixture of two or more of the approaches listed above.

In cases where employees pay part of the cost of the scheme, the employee contribution is normally funded by both male and female employees. As noted, the cost is usually included in the levies covering wider social protection issues.

The ILO advises against relying on individual employer liability schemes for paid maternity leave. These may work against the interests of women workers as employers may then be reluctant to hire women who may become pregnant, or who are pregnant, or may seek to find reasons to discharge them in order to avoid the costs of paying for the maternity leave. Also, compliance with individual employer liability schemes is often problematic, particularly in developing countries, and this is currently the case in the Pacific. Individual employer liability can also impose an excessive cost on small and struggling enterprises. Instead, the ILO promotes pooling of responsibility through the use of public funds or insurance premiums. Individual

employer provision with all its limitations is better than no provision. However, pooled funding is a much better basis.

18.10 Level of paid maternity leave benefits

There is a fairly wide degree of divergence in the level of paid maternity leave in terms of the amount of cash paid. In most cases this is linked to the covered wage, with the ILO minimum standard being two thirds. This is usually interpreted as the normal wage paid for a specified period of time (e.g. earnings in the previous 6 months or previous year), or the wage upon which contributions have been paid for a specified period. However, the ILO convention does not specifically define the covered wage to which the minimum proportion applies.

- A number of countries, particularly in Europe provide for 100 per cent of the covered salary. Examples include Austria, France, Germany, Netherlands, Portugal Spain, and Russia. 100 per cent is also paid in Algeria, Argentina, Brazil, Mexico, Peru, and Barbados. However, this is sometimes capped at a specified level, so that very high income earners do not receive full pay when they are on maternity leave. Caps on the amount paid operate in Belgium, Denmark, France, Luxembourg, the Netherlands, Slovakia, and Sweden.
- In some other countries only a proportion of normal wage or salary is paid. In the U.K. this is 90 per cent initially, in Italy and Norway is 80 percent and Hungary 70 per cent. Ireland is also 70 per cent, Finland 65 per cent, and Greece 50 per cent. In the Caribbean most ratios are in the range from 60 per cent as in Trinidad and Tobago to 70 per cent in Guyana. In the U.S. there is no national scheme, but some states have provisions. For those U.S. states with paid maternity leave the proportions rang from 53 to 75 per cent of normal wages. In Botswana paid maternity leave is set at only 25 per cent of wages.
- Some countries have tiered rates of payment. In Belgium the payment is set at 82 per cent of the covered wage for the first 30 days of leave, and thereafter at 75 per cent. In the U.K. maternity leave is paid at 90 per cent for 6 weeks, and thereafter for

12 weeks at the lower of a flat rate of 100 pounds per week, or 90 per cent of covered earnings. Saudi Arabia pays sickness and maternity benefits at 100 per cent of the wage for the first 30 days, and 75 per cent thereafter. Grenada pays at 100 per cent of wages for the first two months of leave, but 60 per cent for the last month.

- In Jamaica paid maternity leave is set at the minimum wage.
- In New Zealand payment is 100 per cent of normal wages up to a level equal to about half the average wage for full time women workers. Thereafter the payment is a flat rate.

18.11 Cost of paid maternity leave

As previously noted, paid maternity leave is usually one of the lower cost social protection systems in most countries with formal social protection systems in place. This can be measured by calculating what percentage of the wage and salary payroll is required to fund paid maternity leave. However, a number of factors influence the actual level of cost of paid maternity leave schemes. These include:

- *The average number of qualifying births per woman worker.* This is usually low in developed countries, partly because of low birth rates, but also because many women withdraw from paid employment for a period after the birth of their first child. Hence many second or subsequent births do not qualify for paid maternity leave. For example in New Zealand only around 30 per cent of births qualify the mothers for paid maternity leave, even though most women workers in New Zealand are employed in the formal economy. This pattern however varies by country. Countries with high provision of childcare facilities such as the Scandinavian countries are likely to see more mothers return to work between childbirths, and hence a higher percentage of qualifying births. It is also possible that a similar pattern could occur in Pacific Island countries because of extended family care of the children of working mothers.
- *The proportion of women in the paid workforce* (or in Pacific Island countries,

in the formal economy workforce). The costs of maternity leave are spread across both women and men workers, and hence the lower the proportion of women in the paid workforce, the lower the comparative cost.

- ***The ratio of the earnings of women qualifying for maternity leave to average earnings.*** In most countries women on average still earn less than men, and this effect may be reinforced if women taking maternity leave are younger and more junior in pay status than women workers as a whole. Whatever the other problems this disparity creates, it has the technical effect of lowering the cost of paid maternity leave where this is linked to employee pay levels.
- ***The ratio of maternity leave pay to normal pay for the woman concerned.*** In some countries this is 100 per cent, though the ILO standard minimum is only two thirds.
- ***The period of paid maternity leave.*** The longer the period, the higher the cost. However, the 14 weeks provided for in the most recent ILO conventions is under 0.7 per cent of the time spent working in a 40 year formal economy career.
- ***The average length of working life in paid employment for workers as a whole.*** The longer this is the lower the percentage levy needed to fund paid maternity leave.

It is probable that the average length of formal economy employment is lower in Pacific Island countries than in the developed countries because of movement between formal and informal employment. However, more statistical analysis will be needed to establish whether this significantly affects the costs of paid maternity leave, because young women also move between formal and informal economy employment. There would thus be an offset in the form of a reduction in the proportion of qualifying births

- ***Administrative costs also affect the level of overall costs of paid maternity leave.*** Since paid maternity leave is usually administered as an adjunct to larger social

protection schemes, this tends to reduce the incremental administrative costs.

A model for estimating cost of paid maternity leave is shown in section 18.15.

18.12 Maternity discrimination

One of the key objectives of the ILO conventions is to seek to ensure that maternity does not constitute a source of discrimination in employment. This includes prohibiting pregnancy tests except in relation to work prohibited for pregnant or nursing women under national laws, or where there is a recognised or significant risk to the health of the woman and child.

Other protections include:

- Protection from discriminatory dismissal,
- Compensation in the case of dismissal,
- Guaranteed right to return to work to the same or an equivalent position, and
- Maintaining rights to employment-linked benefits while on maternity leave.

18.13 Issues for the five Pacific Island countries

18.13.1 Cost and coverage Issues

Key issues for each of the five Pacific Island countries are who should be covered by any extension of maternity protection, and how it should be administered. Each country has a structural situation where the majority of women are outside the formal employment sector. At the same time each country has an established provident fund covering formal economy employment, and existing government provided health services funded mainly out of taxation revenue. These factors have a significant impact on what is feasible within current planning horizons.

Maternity protection schemes are usually low cost in the sense that they represent a low proportion of covered wages for those employed in the formal economy. For example in developed countries paid maternity leave of say 14 weeks duration usually costs under 0.5 per cent of the aggregate wages of men and women workers, even with full wages paid during the period of maternity leave. Maternity medical costs are also usually a low percentage of total health treatment costs in most countries. For

this reason maternity protection programmes are usually aggregated in with larger social protection programmes such as sickness insurance or broader social insurance schemes.

However, while international experience is that maternity protection schemes are relatively low cost compared to the larger aggregates such as retirement pensions or health insurance, there are some specific issues affecting developing countries which need to be kept in mind in scheme design. Each of these considerations is relevant to the five Pacific Island countries covered in this project, including Solomon Islands.

- In many developing countries the majority of women workers are outside the formal economy, and hence have no existing social protection programmes to which maternity protection schemes could be added. This is the situation in each of the five countries, with the significant exception that there are existing national health services which include maternity medical services in operation in all five, and in the case of Fiji, a social welfare programme in the form of the family assistance scheme.
- Many informal economy women workers as well as those engaged in family duties are low income, and would have difficulty in paying for insurance based maternity medical care or for a voluntary contributory income protection programme. This is also generally true in each of the five countries, though there are also significant variations in the degree to which women workers in the informal economy are regular cash earners.
- In the Pacific Island countries the percent of the formal economy payroll needed to pay for maternity protection costs for workers in the formal economy may be somewhat higher than in most other countries. This is because of the combined effect of much larger family sizes, and shorter average periods in formal employment because of movements between formal and informal employment, and worker emigration. However, even after allowing for these factors, the required contribution rate is still likely to be comparatively low compared with other elements of social protection. The exact

cost will depend on the design parameters of the scheme.

- Maternity linked medical costs may be a somewhat higher percentage of all medical costs in the Pacific than in most other countries. Factors which could produce this outcome include high birth rates, and the limited development of specialist medical services in most Pacific Island countries. The latter factor means that basic health service including maternity costs are a larger proportion of a smaller aggregate.

18.13.2 *Who would administer paid maternity Leave?*

For each of the 5 Pacific Island countries in the project there are potential institutional *carriers* for maternity protection schemes, at least for formal economy workers. Each has a provident fund. Samoa has an accident compensation corporation and is planning to set up a health insurance scheme. Fiji has a family assistance scheme.

It should be noted that if maternity protection schemes are administered by provident funds, the contributions to fund them are different in nature to those currently going into individual provident fund accounts. The contributions to cover maternity protection are pooled in common funds, and constitute social insurance rather than defined contribution individual accounts.

Maternity linked medical costs are currently covered mainly by the government funded health services in all of the five Pacific Island countries included in the study. A key policy issue is whether this should continue to be the case, or whether employment-linked health insurance should be used to raise standards of maternity care for women workers.

18.13.3 *Existing paid maternity leave*

All five countries in the study already have some forms of paid maternity leave for some women workers, though on an employer liability basis.

- Vanuatu employment law and government regulations provides for 12 weeks maternity leave on half pay (full pay for government employees). However,

compliance amongst smaller employers is problematic.

- Samoa has 2 months paid maternity leave in the public sector. Some private sector employers also provide leave.
- The Solomon Islands requires 12 weeks paid maternity leave at 25 per cent of wage or salary. In the government sector the payment rate is 100 per cent of wages. Again compliance amongst smaller employers is a problem.
- In Kiribati public sector employees receive paid maternity leave for up to 12 weeks.
- Fiji provides public sector employees with paid maternity leave at 100 per cent of salary for 12 weeks, including 6 weeks after the birth. Payment at the 100 per cent rate is limited to the first three children. For subsequent births a lower flat rate allowance FJD 5.00 per day applies. A few private sector employers also provide maternity leave.
- Fiji has included in its new Employment Relations Bill 2005, provision for employers to provide 12 weeks of paid maternity leave at full pay – i.e. the rate the woman would have received had she been at work. Eligibility is based on employment for not less than 150 days, with Labour Department officials determining the apportionment between employers if the woman had more than one employer in the relevant period.

18.13.4 Problems with existing maternity protection coverage

In each of the five countries with paid maternity leave, only the arrangements for public sector employees are relatively satisfactory in terms of ILO Convention 103, though not the more recent Convention 183.

- For formal economy workers in the private sector, only two countries (Vanuatu and the Solomon Islands) currently have mandatory schemes under employment law. These provide for low rate maternity leave wages. An even more fundamental weakness is that they are individual employer liability schemes, and provide

only haphazard cover in the case of employees in smaller enterprises. The proposed Fijian scheme for private sector employees, though providing for full rates of pay, is also an employer liability scheme.

- In all five countries the majority of women workers who are engaged in the informal economy have no forms of income replacement if they have to give up work because of pregnancy.
- Maternity linked medical care is also an issue. Each of the countries has a national health type system, though the quality of the care coverage is variable, particularly geographically, as remote areas have limited health facilities.

18.13.5 Maternal and child health

In each of the five countries the levels of infant mortality indicate that health aspects of maternity are still problematic. The figures quoted here are the latest estimates taken from the WHO Website.

Table 18.1 Maternal and child health

Country	Infant Mortality Deaths per Thousand Births	Maternal Mortality Deaths per 100,000 births
Fiji	17.76	35.29
Kiribati	43.00	103.00
Samoa	19.30	19.60
Solomon Islands	66.00	295.00
Vanuatu	27.00	96.30

Source: WHO Website November 2005

None of the five countries approaches developed country levels in terms of infant survival rates. Even in Fiji and Samoa infant mortality is three times the Australian or New Zealand level, while in the Solomon Islands it is ten times higher. Maternal mortality is particularly high in the Solomon Islands, Kiribati and Vanuatu.

Only part of this problem can be addressed by maternal and post-natal medical care for mother and infant. Other issues include the existence of safe water supply, and adequate sewerage and waste disposal systems. These are public health measures rather than medical treatment issues.

However, part of the problem can be addressed by better medical services. A key policy choice is whether to use *across the board* improved services for the population as a whole, or to let the formal economy lead the way with additional medical services funded by contributory insurance.

18.13.6 Institutional options – formal economy workers

There are a number of possible options for extending maternity protection for women workers in the formal economy. In the case of paid maternity leave, the options are as follows:

- Extend the provisions of employment acts,
- Add paid maternity leave to the coverage of the provident funds,
- Add paid maternity leave to sickness insurance cover,
- Add paid maternity leave to accident insurance cover,
- Include paid maternity leave in social welfare/family assistance cover, and
- Set up a new programme based on the taxation departments.

Comments on the feasibility of each of these approaches follow. The main criteria used in assessing the options are the feasible sources of data on the identity and earnings of claimants, the extent to which a payments mechanism can utilise existing channels, and the existence of methods to collect funding for the scheme.

(i) Extending the Provisions of Employment Acts

An option is to extend the provisions of employment acts in each of the five countries to require employers to pay maternity leave to all qualifying women employees.

This is the currently proposed Fijian approach. It would also be an improvement on the status quo in Samoa, and Kiribati, and could accommodate some improvement in conditions in Vanuatu and the Solomon Islands. However, there are distinct limitations in this approach, as the experience of Vanuatu and the Solomon Islands already demonstrates.

- Employer liability programmes are difficult to enforce, with substantial non-compliance occurring amongst smaller employers,

- As well as missing out on paid maternity leave, women workers may face increased job discrimination or job loss if employers perceive pregnant women as being too expensive to employ,
- The cost of maternity leave can impact heavily and adversely on some small employers,
- The impact is also particularly heavy on employers with a high proportion of women staff. This is likely to be the case with the Fijian textile and clothing industries, and
- The approach is not one recommended by the ILO.

Hence, this is not the preferred option.

(ii) Adding Paid Maternity Leave to Provident Fund Coverage

A second option is to add paid maternity leave to the programme coverage of existing provident funds. This approach would seem to have a number of advantages:

- There is an existing data base on the declared earnings of women employees which can be used to calculate maternity pay entitlements,
- Additional administrative costs would be relatively low, because the administrative apparatus to collect funding and make payments already exists,
- Because costs are pooled, there would be limited adverse impact on individual employers,
- The situation of women who have multiple employers or who move between different employers is protected,
- Women workers would be protected against the risk of job loss from pregnancy, and
- The existence of paid maternity leave might boost voluntary provident fund membership by women in the cash earning part of the informal economy.

The main issues would be political acceptability of the approach, and the additional costs and how they were to be covered.

The cost of paid maternity leave in the Pacific could require additional payroll levies of

between 0.3 and 0.8 per cent depending on the specific parameters of the schemes chosen and the country concerned. Details of indicative calculations for individual countries are shown in section 18.14.

An issue is whether these extra levies should be paid by employers only, or shared between employers and employees. It may be noted that in the case of public sector employees and those companies now providing paid maternity leave, the cost of any extra levy would be largely or completely offset by the reduction in obligation to pay directly for maternity leave.

(iii) *Adding Paid Maternity Leave to Health Insurance Cover*

An option which would be viable in Samoa would be to add paid maternity leave to the proposed compulsory health insurance scheme. This approach could be extended if some other Pacific Island countries set up mandatory health insurance schemes, which is planned in Solomon Islands.

In this case most of the considerations would be similar to those set out above for adding paid maternity leave to provident fund cover.

An advantage would be the possibility of including maternity pay in a package which provided for improved medical care for ante-natal, delivery, and post partum medical care in cases where existing public services are deemed to be inadequate. Maternity linked medical care could extend to wives of male employees as well as women employees. This provision might help to overcome objections from male employees to contributing to a programme which otherwise benefited only women employees.

(iv) *Adding Paid Maternity Care to Accident Insurance cover*

An option which also currently applies only to Samoa would be to use the accident compensation insurance scheme as the vehicle for delivering paid maternity leave. This also has the existing data bases and administrative set-up covering formal sector employees.

While most of the considerations are similar to those for the provident fund and health insurance options, it may be a second choice only because the focus of accident compensation insurance is

very different. This may mean that paid maternity leave does not fit particularly well with the rest of the business.

(v) *Using the Social Welfare or Family Assistance scheme as a delivery mechanism*

In the case of Fiji, an option would be to add paid maternity leave to the existing social welfare service known as the family assistance scheme. This Fijian scheme already provides benefits at low rates to sole parents, and an option is to use the family assistance delivery mechanism to deliver a paid maternity leave scheme.

However, the administrative cost of doing this is likely to be higher than for several of the other options. The Department of Social Welfare which runs the FAS scheme would have no records of earnings of new mothers, and would have to obtain these either from employers, or more probably from the provident fund. It would also have to set up additional payment arrangements and compliance systems for checking on dates of return to work. If it was responsible for collecting levies to fund the paid maternity leave, it would have to duplicate the collection arrangements already existing for the provident fund.

Hence, on balance this does not look like a good option for formal economy workers. It could be an approach for giving some types of maternity grants or subsistence assistance to informal economy workers.

(vi) *Using the Tax Department as the mechanism.*

A further option is to adopt aspects of the New Zealand model. This involves funding the cost of the scheme from general taxation, and using the taxation department to pay due amounts to women eligible for paid maternity leave.

However, there are problems with this approach for all five countries. In New Zealand income taxation is levied on the whole earning population. The New Zealand taxation department (Inland Revenue) also collects accident compensation levies. Hence it has good data on the earnings of the whole population. This is not the case in all of the five Pacific Island countries. Only part of the economically

active population is covered by income taxation in four of the countries, while in Vanuatu there is no personal income taxation.

Hence, this approach does not currently seem feasible in the five Pacific Island countries.

(vii) *Summary*

Of the options considered above, adding a paid maternity leave programme to the existing provident fund programme coverage seems the most feasible option for administering paid maternity leave for formal economy workers in four of the five countries. In the Samoan case there would seem to be a choice between provident fund and health insurance as carrying agents for a paid maternity leave programme.

Fiji could potentially use its family assistance scheme to deliver some type of grant or assistance to informal economy workers.

18.13.7 Interface issues

(i) *Dealing with the interface with existing paid maternity leave*

In setting a rate for the level at which payment is made, thought needs to be given to how to deal with the interface with any existing paid maternity leave arrangements. For example, if maternity leave is to be paid at two thirds of salary in line with the ILO minimum standards convention, this would create a potential anomaly in cases where public sector employees and a few private sector employees already get 100 per cent of salary as paid maternity leave. Payment at a 100 per cent rate currently applies to public sector employees in Vanuatu, the Solomon Islands, and Kiribati. A few large private sector organisations also pay maternity leave at 100 per cent of salary.

Options for dealing with this differential include:

- Equalising all paid maternity leave at the new standard rate,
- Having differential levies for organisations which pay at different rates, and
- Allowing organisations with higher rates to pay supplements on top of standard paid maternity leave.

Equalising all maternity leave at the new standard rates would involve a downward

adjustment of existing paid maternity rights in some cases, unless the new standard rate were to be 100 per cent of pay. In all other cases, the approach would be likely to lead to resistance to the new standard by workers currently covered by more favourable existing arrangements. Accordingly, this approach is not proposed.

Differential levies to pay for different percentages of paid maternity leave are in theory possible, but likely to lead to confusion and complexity in levy setting, and problems in determining entitlements when individual women move between different employers with different standards. Accordingly this approach is not proposed.

Allowing existing organisations with higher rates to **pay a supplement** on top of the new standard paid maternity leave seems the most sensible approach. This avoids complicating the levy and maternity pay setting arrangements. Provision for supplements could be incorporated in employment agreements where these are the existing mechanisms for such payments

18.13.8 Problems with covering the self-employed

One difficult issue would relate to levy rate setting for women workers in the informal economy who chose to become voluntary provident fund members in order to access the paid maternity leave scheme. If women (but not men) from the informal economy became members, a standard rate of contributions set at the level applicable to wage and salary earners would not cover costs, since in the formal economy where provident fund membership is compulsory, both men and women (or their employers on their behalf) would be paying the extra levy.

A related problem would be with self-employed couples in the cash economy, who might chose to attribute most of their joint income to the woman in the year prior to giving birth.

There is no easy solution to this problem. A possible approach is a longer minimum provident fund membership period requirement before informal economy workers who join the scheme and become eligible for paid maternity leave. It may also be necessary to require joint membership of husbands and wives where they are involved in a joint economic enterprise, or

even requiring all the members of this enterprise to join the provident fund.

18.13.9 *Maternity protection in the informal sector*

Developing options for improving maternity protection for women involved in the informal economy involves a more difficult set of issues. Outside of the group of women employed in the formal economy and covered by existing provident funds, there are three other main and partly overlapping groups of women who may be in need of some maternity protection measures.

- Women involved in self employment in the cash economy,
- Women involved in subsistence economic activities in the traditional economy, and
- Women largely involved in domestic and family duties.

The three categories are not mutually exclusive, as categorisation is an issue of predominant orientation. Women involved in family businesses which earn cash may themselves be unpaid family workers. Women largely involved in subsistence production for family and community use may sell some products or handicrafts for cash. Similarly, women involved largely in domestic and family duties may at times involve themselves in subsistence production or sale of some produce. There are also some groups of women who do not fit in the three main categories, such as tertiary students.

The comments which follow relate to the three areas of maternity protection needs: income replacement, medical care, and out of pocket expenses.

18.13.10 *Income replacement*

Cash income replacement has the most relevance to the group of women who are cash income earners in the informal economy. In principle, this group could be incorporated into contributory maternity protection coverage either by:

- Extending the boundaries of mandatory membership of provident funds (or of other institutions incorporating maternity leave arrangements) to include categories of self employed, or

- Offering the option of voluntary fund membership to self employed women in the cash economy.

In either case, membership fees would have to be set on a somewhat different basis to that applying to wage and salary earners. In principle, contribution rates for self-employed people need to incorporate both employer and employee contribution components. There is also the awkward problem that membership of self-employed women alone does not provide the same revenue flow as does a scheme levying both male and female employees, as is the case with most social insurance or provident fund schemes.

One possible solution is to offer a variant *standard* package for self employed women at different contribution rates to those applying to employees. Contributions would need to be determined actuarially on a different basis to those for employees.

A second option is a maternity savings scheme analogous to individual health savings accounts. The money saved could be accessed upon pregnancy leave, or if not accessed eventually added to retirement savings balances. However, this approach might not be suitable for young women workers, who would have little in their accounts in the event of early pregnancies. It also does not meet ILO convention standards.

For women in the **subsistence economy** or other non-earners there would seem to be no realistic contribution base, nor a measurable cash loss associated with maternity. This is not to say that there is not a real economic loss from not being able to engage in subsistence production for a period, but that it is difficult to see how this issue can be fitted into a contributory scheme.

Using government revenues to provide assistance to women (mainly sole parents) who are non-earners is already part of the Fijian social protection system, but not found in the systems in the other four countries, where traditional family and communal networks are responsible to provide this part of social protection.

18.13.11 *Maternity medical care*

Each of the five countries has a form of government provision of free or low cost medical services, including ant-natal and maternity care.

However, the quality and coverage of this care is variable. Problems of service quality and availability tend to be larger in the more remote and isolated areas.

Outside of the improvement of the health systems per se, options which could improve maternity-linked medical care seem most feasible in **formal economy** via employment-linked health insurance or contributory maternity protection packages for employees. Inevitably, these will tend to be mainly urban based, since most formal economy employees in the five Pacific Island countries are in or near urban areas. Plans for health insurance are most advanced in Samoa, and it would be relatively easy to incorporate medical care in this package. Coverage could include:

- Professional ante-natal care,
- Childbirth and delivery, and
- Post natal medical care.

In the other four Pacific Island countries where mandatory health insurance is not currently envisaged, it would be possible to add this coverage into provident fund programmes, the cost to be covered by additional contributions. At this stage it is not possible to cost what funding this would require, as it would be first necessary to determine the split of existing maternity medical costs between any new insurance cover and the government funded health services. This would require a separate costing exercise.

In relation to the **informal economy** improved maternity medical care, only the groups with significant cash income might be able to afford self-funded provision or voluntary medical insurance which incorporates adequate maternity medical care. For the currently larger groups involved in subsistence and semi-subsistence production, the feasible long term solution would seem to be improvement in the range and quality of government provided services funded from general revenues.

18.13.12 Out of pocket expenses

Giving birth to a child involves significant out of pocket additional expenses such as provision for clothing and bedding for the baby. These expenses of course continue as the child grows, but the issue of family allowances is outside the scope of this chapter.

Current Pacific Island tradition is that these expenses are the responsibility of the family concerned.

In some developed countries there are birth grants when a baby is born to cover some of the out of pocket expenses. If this were deemed to be a priority in the Pacific, options could include:

- For those in **formal employment** it would be possible to add provision for a lump sum birth grant to the paid maternity leave or maternity medical expenses scheme. The extra cost of this could be incorporated in the levy said to cover the scheme.
- For those in the **informal economy** the options are less clear. Birth grants could be funded from taxation revenues, but would have to compete with other government priorities. Another option would be social assistance birth grants only to the poor. However, only Fiji currently has the administrative capacity to deliver such a programme.

At present then, for most of the countries concerned, the feasible option if birth grants are wanted is to include a lump sum birth grant in the package applying to formal economy employees.

18.13.13 Summary

What is currently feasible in terms of introducing or extending maternity protection to employed women in the five Pacific Island countries depends on institutional structures as well as political and economic consideration of priorities.

There is a substantial degree of institutional similarity in the five Pacific Island countries:

- Each has only a minority of its population employed in the formal economy, with majorities of varying size employed in both subsistence and cash generating activities in the informal economy,
- Each also has a well established national provident fund covering wage and salary earners in the formal economy, and
- Medical care is largely delivered by government-funded health services providing free or low cost medical care.

Differences exist in four of the counties (Fiji excluded) in the degree to which paid maternity

leave is already provided for in some sectors by employment laws or employment agreements. Other differences include the proposed setting up of sickness insurance in Samoa, and the existence of a family assistance scheme in Fiji.

Given this pattern, the feasible options for expanding maternity protection would seem to be as follows:

- For all five countries, paid maternity leave is currently feasible for employees in the formal sector of the economy. In essence, this is the same group of people who are currently subject to national provident fund membership. As will be set out in the next section, the cost of this is relatively modest.
- For four of the countries (Fiji, Kiribati, Solomon Islands and Vanuatu), the most practical way to extend paid maternity leave to all formal economy employees is to add the programme to the coverage of the existing provident funds, and finance it with a levy collected from the same payroll base as existing provident fund contributions. In the case of Samoa, there is a choice of options of a stand alone programme addition to the provident fund similar to the other four countries, or making paid maternity leave a component of the new health insurance scheme.
- Other than voluntary membership, or extending the scope of mandatory provident fund membership, there is little that can currently be done to provide paid maternity leave to women involved in the cash earning part of the informal economy. The only other option would be tax-funded maternity grants, or in the case of Fiji, social assistance.
- There is even less option in respect of women in the subsistence economy. The only possible option at this stage would be tax-funded maternity grants, with Fiji again having a social assistance option.
- For maternity linked medical care, there are two options:
 - Adopt an insurance approach for women in formal employment only, and fund this by an extra levy added in to the levy needed to fund paid maternity leave. In the case of Samoa the option would be to

add it in to the contributory health insurance package,

- Increase tax funding across the board for improved maternity medical care for all women.
- For employment protection, each country would need to review its employment act to ensure that women workers taking paid maternity leave were granted adequate protection against dismissal or failure to re-employ.

18.14 Cost estimates for individual countries

In the text which follows, indicative calculations have been made for the cost of paid maternity leave in each of the five Pacific Island countries. The costs are expressed as a percentage of the total payroll (men and women combined) in the formal economy. This has been assumed to be represented by contributors to the provident fund.

The levy rates required have been estimated in terms of the model in the Box 18.1.

There is less NPF data available so far for the Solomon Islands, however:

- 1999 Census data indicated that women were 30.8 per cent of the paid work force.
- Women's wages were assumed to be about 90 per cent of the average for men and women combined, in line with the patterns prevailing elsewhere in the Pacific.
- Average employment duration is assumed to be 25 years, as emigration from the Solomon Islands is low, but flow between traditional and modern sectors may be high.
- Calculations have been done for 14 and 12 weeks paid maternity leave.
- The rate of benefit for paid maternity leave is assumed to be two thirds of normal pay for the woman concerned.
- Total fertility rate in the Solomon Islands was 6.1 in 1984-87 and 4.8 in 1997-99. The World Factsheet website estimates the 2005 figure as 4.04. This seems plausible in view of the earlier trend. Half of this figure (2.02) has been assumed to represent

qualifying births for those women in employment. :

On this basis the estimate for the levy cost of 14 weeks leave is calculated as:

$$\text{Cost Estimate} = \text{Administrative Cost} + \left[\text{Proportion of women in L} \times \text{Period of Payment} \times \text{Percent of Wage} \times \text{Eligible Births} \times \text{Ratio of Women's to total wages} \times \frac{1}{\text{Average Paid working life}} \right] \times 100$$

$$\begin{aligned} \text{Cost Estimate (net)} &= 0.269 \times 0.667 \times 0.308 \times 2.02 \times 0.90 \times 1/25 \times 100 \text{ percent} \\ &= 0.351 \text{ percent} \end{aligned}$$

That is, the paid maternity leave of 14 weeks would require a levy of **0.4018** per cent of payroll, plus administration. Assuming this at 10% extra, the cost is a levy of **0.442** per cent, rounded to **0.45** per cent.

For 12 weeks leave the cost would be a levy of **0.39** per cent, rounded to **0.4** per cent.

The following table summarises indicative estimates by country.

Table 18.2 *Indicative estimates by country*

Country	Levy Needed to pay for Maternity Leave at 2/3 ^{ths} of Salary	
	14 weeks leave	12 weeks leave
Fiji	0.3	0.27
Kiribati	0.45	0.40
Samoa	0.73	0.63
Solomon Islands	0.45	0.40
Vanuatu	0.40	0.35

Box 18.1 Calculation model

The cost of a paid maternity leave system for employed women workers funded by a contribution rate C, expressed as a percentage of wages for all workers (both sexes) in the scheme, can be estimated by the formula:

$$C = A + F \times T \times B \times E \times W \times (1/D) \times 100 \text{ percent}$$

Where

- C** is the estimated cost.
- A** is the administrative cost of running the scheme.
- F** is the proportion of women in the employed labour force covered by the scheme.
- T** is the time period the maternity leave is paid for.
- B** is the percentage of the female workers wage the maternity leave benefit represent.
- E** is the average number of number of eligible births per woman worker in the scheme.
- W** is the average ratio of women's wages to all wages (both sexes combined) for women workers claiming paid maternity leave.
- D** is the average paid working life of workers in the scheme.

The administrative cost figure will need to be calculated separately from other data which will depend on the country in question. However, the rest of the equation can be demonstrated by putting in representative figures.

Example 1

Suppose that women workers represent 40 per cent of the labour force covered by the scheme.
 The period of paid maternity leave is 3 months or one quarter of a year.
 The paid maternity leave benefit is paid at 70 per cent of the woman workers normal wage.
 On average, women workers in the scheme have 1.2 children while eligible for paid maternity leave.
 Women's wages for those claiming paid maternity leave average 90 per cent of wages for the covered labour force as a whole.
 Workers are employed for an average of 30 years in the paid work force covered by the scheme

On this basis the levy rate required to fund paid maternity leave is as follows:

$$C = A + F \times T \times B \times E \times W \times (1/D) \times 100 \text{ percent}$$

$$C = 0 + 0.4 \times 0.25 \times 0.7 \times 1.2 \times 0.9 \times 1/30 \times 100 = 0.252 \text{ percent}$$

Hence, a levy of 0.252 per cent on wages is required to fund this scheme, apart from administrative costs

As may be noted, the actual cost of paid maternity leave is likely to be able to be covered by a very low levy on wages or payroll.

Example 2

Suppose that women represent 45 per cent of the labour force covered by the scheme.
 The period of paid maternity leave is 14 weeks in line with ILO Convention No.183.
 Reflecting higher Pacific birth rates, women workers have an average of 2 eligible children while in paid employment.
 Paid maternity leave is set at two thirds of normal pay for the woman concerned, in line with ILO Convention.
 Women participating in the scheme earn an average of 85 per cent of the wages of all employees contributing to the scheme.
 Average length of employment in the formal sector is only 20 years for men and women combined.

On this basis the required levy rate to pay for the scheme (excluding administrative costs) is measured by:

$$C = A + F \times T \times B \times E \times W \times (1/D) \times 100 \text{ percent}$$

$$C = 0 + 0.45 \times 0.269 \times 0.667 \times 2.0 \times 0.85 \times 1/20 \times 100 = 0.686 \text{ percent}$$

Hence, a levy equal to 0.686 per cent of wages would be required to cover cost excluding administrative costs.

18.15 Comments on assumptions

The examples shown above is illustrative only, although the low percentage levy on wages or payroll calculated as needed to fund this scheme is in fact characteristic of paid maternity leave schemes as a whole. As regards each of the assumptions, the following comments are made:

- **Women in the workforce.** In most countries the proportion of women in the

paid work force is under 50 per cent of the total paid work force.

- **Length of leave.** Paid maternity leave in the range 12-14 weeks is the most common pattern, though a few countries provide for much longer periods, or add extra leave for *exceptional circumstances* such as medically traumatic births. A few countries (e.g. Sweden) also give some paid parental leave to fathers. The new ILO standard is 14 weeks

- **Level of payment.** The proportion of normal wages provided as paid maternity leave varies widely. A number of European countries provide for full normal pay, i.e. a 100 per cent benefit/wage ratio. In the Caribbean a 65 per cent ratio is more common. New Zealand provides for full pay up to a figure which is about half the average wage, but thereafter no additional amounts are payable so a woman on average earnings receives only around half of her normal wage as paid maternity leave. The ILO standard is two thirds of normal pay or earnings.
- **Eligible births.** The number of eligible births may vary widely by country. It is low in countries with low birth rates, and is also affected by traditions of whether women tend to drop out of the paid labour force for a period after having their first child. In this case they would not be eligible for payment for subsequent births. In developing Pacific countries higher figures seem likely than in developed countries. How much higher is unclear, especially as census data for Pacific countries indicates smaller average numbers of children per woman in the urban areas where the majority of formal sector employment for women is concentrated. Other offsetting factors could include the impact of temporary or permanent worker emigration in countries such as Samoa and Fiji. Movement out of the country of women workers, either for employment abroad or as spouses of migrating male workers, will tend to reduce eligible births occurring while in the country. The extent to which this factor balances against shorter average periods of contribution-paying employment in terms of net cost impact on a paid maternity leave scheme is unclear.

It may be noted that in New Zealand, despite the predominance of formal economy employment for women, only 30 per cent of total births have qualified the mother concerned for paid maternity leave. This is despite the fact that the number of children per woman is only 2 on average.
- **Covered earnings.** In most countries women on average receive lower actual pay than men even though the rate for the job may be identical. Factors causing the

difference include occupational structure and job seniority. In the case of women in their peak childbearing years, lower average seniority compared to other employed women may also push the wage ratio downwards. A further factor which could push relative rates of covered earnings downward is the effect of women returning to work and giving birth again before the eligibility period for a full rate of payment has built up. For example if eligibility were based on earnings in the previous 12 months, and a woman gave birth 10 months after returning to work, the payment rate would be 1/6th lower.

- **Duration.** In most developed countries, long duration in paid employment is characteristic for men, and now increasingly so for women. Average length of paid employment may be significantly lower in developing Pacific countries because of movements to and from informal employment, and in some of the countries, because of worker emigration. If this is so, it will tend to push up the relative cost of paid maternity leave, since there will be a smaller base of total contributors in relation to maternity leave claimants.

18.16 A standard paid maternity leave model

Eligibility All women who have been contributing members of the national provident fund for the six months prior to giving birth.

(Alternative option: All women who are members of the national provident fund)

Covered earnings Average total earnings upon which provident fund levies have been paid in the 12 months prior to the claim for paid maternity leave. Where the woman concerned has been in contributory employment for less than 12 months, the earnings rate used for determining entitlement is

	adjusted downwards on a pro rata basis.		
Period of paid maternity leave	14 weeks of paid maternity leave. Normally to be taken in the 6 weeks prior to giving birth, or the expected birth date, and 8 weeks afterwards, unless medical advice indicates otherwise, or the birth occurs earlier than expected.	Administering body	The provident fund, or such other organisation as the government designates.
		Supervising body	The Ministry of Labour or such other body as designated by the government.
		Funding levy	
		Option 1.	Levy paid by the employer.
Payment rate	Two thirds of covered average weekly earnings for the 14 weeks, or for a correspondingly lesser period if the claimant returns to paid employment before the 14 weeks have elapsed.	Option 2.	Levy cost shared between employers and employees as with provident fund contributions
Status of Payments	Paid maternity leave is treated as normal income for provident fund and taxation purposes. It attracts normal provident fund levies, and accrues normal entitlements other than paid maternity leave.	Retention of rights	While on paid maternity leave the claimants retain all existing employment linked rights. Maternity leave counts as employment service for the purpose of calculating these other rights
		Optional extras:	
			1. Maternity medical insurance to cover ante-natal, delivery and post natal care.
			2. Lump sum maternity grants.

Chapter 19 Operations and Information Technology in SINPF

19.1 Background

The Solomon Islands National Provident Fund (SINPF) has around 64,000 active members, out of a total of 119,000 registered members, and just over 2400 registered employers. Contributions are payable monthly at the rate of 12.5 per cent of salary – 7.5 per cent from employers, and 5 per cent from employees. Employees are defined as persons over the age of 14 years who are employed in a contract of service irrespective of the period of service, and not in an exempt category.

Withdrawals may be made under the following circumstances:

- Retirement at age 50 and above,
- Compulsory redundancy at age 40 or above,
- Partial withdrawal on compulsory redundancy below 40 years of age,
- Permanent incapacity preventing employment,
- Permanent migration to another country, and
- Death of the member.

In general the withdrawals paid to members are the sum of their accumulated contributions plus the interest allocations that have been determined by the board. In addition to the balance of the contribution account, members are entitled to a special death benefit of SBD 2,500 upon death. In addition, members are allowed to pledge two-thirds of their accounts against loans from financial institutions and after 6 months default the pledge is invoked. There is also provision for special housing loans; however this scheme is currently under suspension.

19.2 Administration

The SINPF is governed by a tripartite Board of Directors, composed of two representatives each from the government, employers and workers. All the directors are appointed by the Minister of Finance. Recently the SINPF has changed the traditional practice whereby the Chairperson of the Board is automatically the Permanent Secretary for Finance, and now is a director elected from within the Board itself.

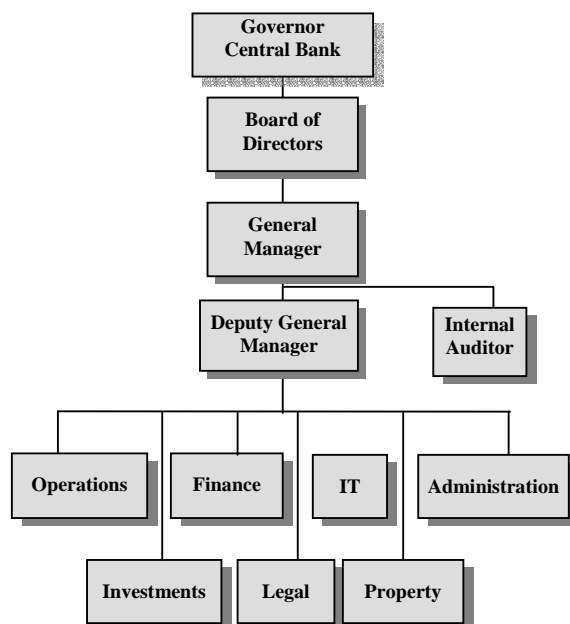
Under the SINPF Act, the Minister of Finance is the supervising authority of SINPF. However, following the passage of the Financial Institution Act 1998, the SINPF now comes under the direct supervision of the Governor of the Central Bank of Solomon Islands (CBSI). With this new legislative arrangement, the SINPF is required to comply and conduct its business in accordance with the requirements of the Banking and Finance Act, in line with commercial banks.

The implementation of SINPF policy and the day-to-day operations are the responsibility of the SINPF General Manager, who manages 103 staff in 4 operational departments and four non-operational departments:

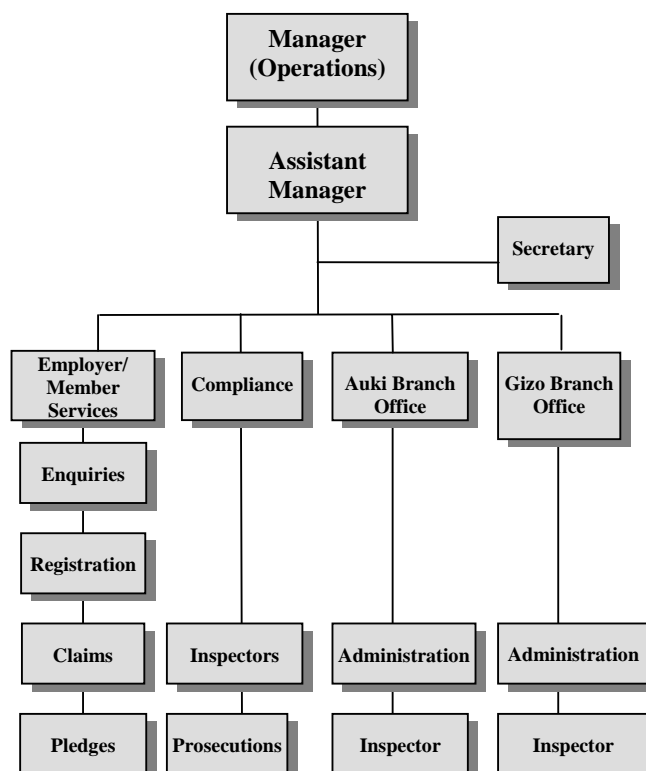
Table 19.1 SINPF departments

<i>Operational</i>	<i>Non-operational</i>
Operations	Investments
Finance	Property
IT	Legal
Administration	Internal Audit

There are also 2 branch offices, one located at Gizo and the second at Auki. Each branch office has 3 staff, the manager, an inspector, and an administration officer. Both offices have computers, but use is limited to the answering of enquiries and printing of member statements only. Online access to the mainland was trialled, but found too expensive. The branch office databases are refreshed every 3 months by replacing the hard drives.

Figure 19.1 SINPF organisation**19.2.1 Operations Department**

The Operations Department has a total of 30 staff, organised as follows:

Figure 19.2 Operations Department organisation

The Employer/Member Services Department has 4 Sections:

- Enquiries Section,
- Registration Section,
- Claims Section, and
- Pledges Section.

The **Enquiries Section** has 3 enquiry officers who are responsible for:

- Attending to all counter and telephone enquiries and complaints,
- Ensuring response to all enquiries and complaints,
- Attending to enquiries/complaints by mail,
- The acceptance and checking of employer and employee registration applications, and
- The acceptance and checking of all claims for withdrawal.

The **Registration section** has 2 staff with responsibility for:

- The processing of new employer registration applications,
- The maintenance of employer records (change of details etc.),
- Response to telephone/mail requests for information, complaints etc,
- Response to employer correspondence,
- The processing of new member registration applications,
- The maintenance of member records (checking, data entry and verification of member change of details etc), and
- The maintenance of nominee data.

(i) Employer registration process

Employer Registration Forms (Form NPF3) are sent to new employers on request or they can be collected from the SINPF office, and when completed and certified are lodged with the Enquiry Officer at the SINPF office. This is a very simple form, requiring no supporting documentation or reference to a business licence. The Enquiry Officer checks that the form is complete, returns incomplete forms to the employer, and passes complete forms to the Registration Officer (Member Services).

Figure 19.3 Employers registration form

IMPORTANT: PLEASE READ THE NOTES AND INSTRUCTIONS OVERLEAF

SOLOMON ISLANDS NATIONAL PROVIDENT FUND

This form must be posted to the Manager, National Provident Fund, P.O. Box 619, Honiara, or delivered to the Office of the Fund at 1st Floor, Mendana Avenue, Honiara.

EMPLOYER'S REGISTRATION

Date received in Office

1. Name and Postal Address of BUSINESS/EMPLOYER (Block Letters)

2. (a) Business or Trade name.....
 (b)(i) Business Telephone Numbers.....(b)(ii) Residence Telephone No.....

3. Total Number of Employees.....

4. Number of Non-Resident/Employees for whom you wish to claim exemption

5. NUMBER OF EMPLOYEES NOT REGISTERED AS MEMBERS OF THE FUND.....

6. Constitution of Business

	Sole Proprietor
	Partnership

	Limited Company

Put X where applicable or print as required "School Committee" "Club" etc.

7. Nature of Business.....

8. Location of Business Premises.....

9. If wages are not calculated centrally please state whether separate registration of other Branches is required.....
 (If so please give details of the address and number of employees at each Branch).

10. If previously registered as an employer with the National Provident Fund state Employer's Reference Number.....

11. If new employer give date when wages first paid/payable to employees.....

12. Full name and address of Employer/Owner of Business or Principal Partner; Secretary; Managing Director, signing the form on behalf of the employer.
 Name (Print).....
 Home Address.....

13. I hereby certify the above to be true and correct:
 Signature..... Designation.....
 Date.....

FORM NPF 3

NOTES AND INSTRUCTIONS TO EMPLOYER

- (i) The purpose of this form is to enable the Fund to register you or your business and to ascertain:-
Your full postal address to be used in future correspondence; and
The number of employees not registered as members of the Fund for whom Forms (NPF 6) are required.
- (ii) If the answer to any question is 'NO', 'Not applicable' please say so.
- (iii) When completing Question 9 employers should decide if they wish to centralize payments to the Fund or register pay points separately. The following advice is given:-
(a) as the Fund will send any queries to the point of registration it is usually best to register separately any branch which has full authority in pay matters.
(b) if however wages are calculated at an employers headquarters, and local branches merely payout the amounts authorised centrally, it may be better to centralize the calculation and payment of contributions also, unless branches hold full information and authority to answer enquiries.
- (iv) You will be allocated a Reference Number which will be used in future correspondence and printed on forms provided for your use.
- (v) A copy of "Guide for Employers" is enclosed. This is a booklet of instructions and advice. You will later be sent the required number of registration forms for employees and forms for monthly and quarterly returns.

FOR OFFICIAL USE ONLY

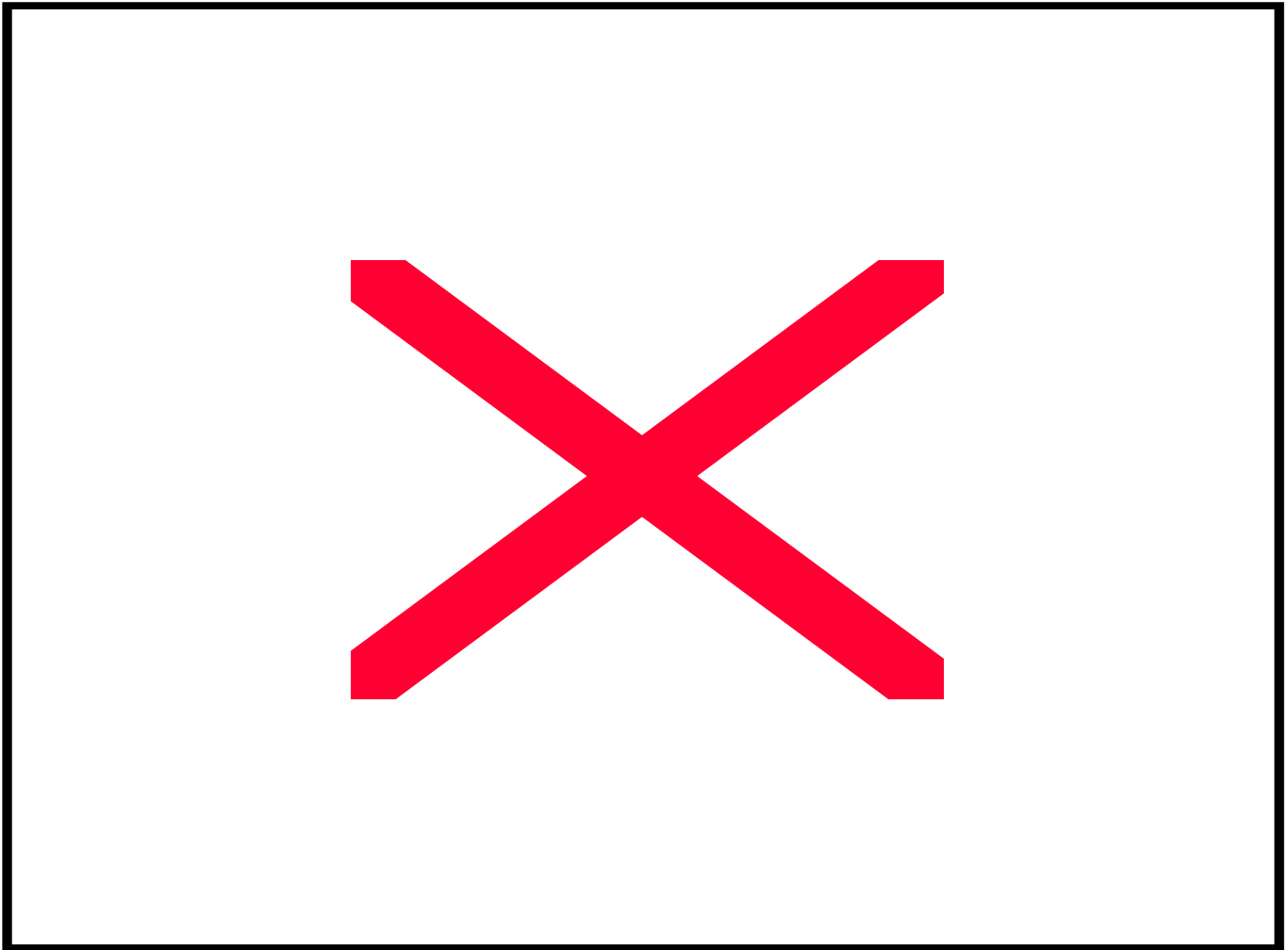
Action Taken	Initials	Date
Number Allotted		
Industry Code		
Forms NPF 5, NPF 6, and Leaflet 2 sent		
Form NPF 10 sent (if relevant see question 4)		
Index Slips (NPF 1, NPF 2) made		
Ledger card coded		
File cover prepared		

The Registration Officer checks for duplicate registration by keying in the employer/company name; if the company is already registered or the name matches one on the computer, the registration process is cancelled and the employer advised.

If there is no duplicate registration, the Registration Officer proceeds with the checking

of the form, calls up the employer registration screen, and enters the employer details to create new record for the employer. An employer number is generated by the computer system which is copied onto the registration form. The details are also written in the Employer Register (manual process). There is no verification of the data entered into the computer.

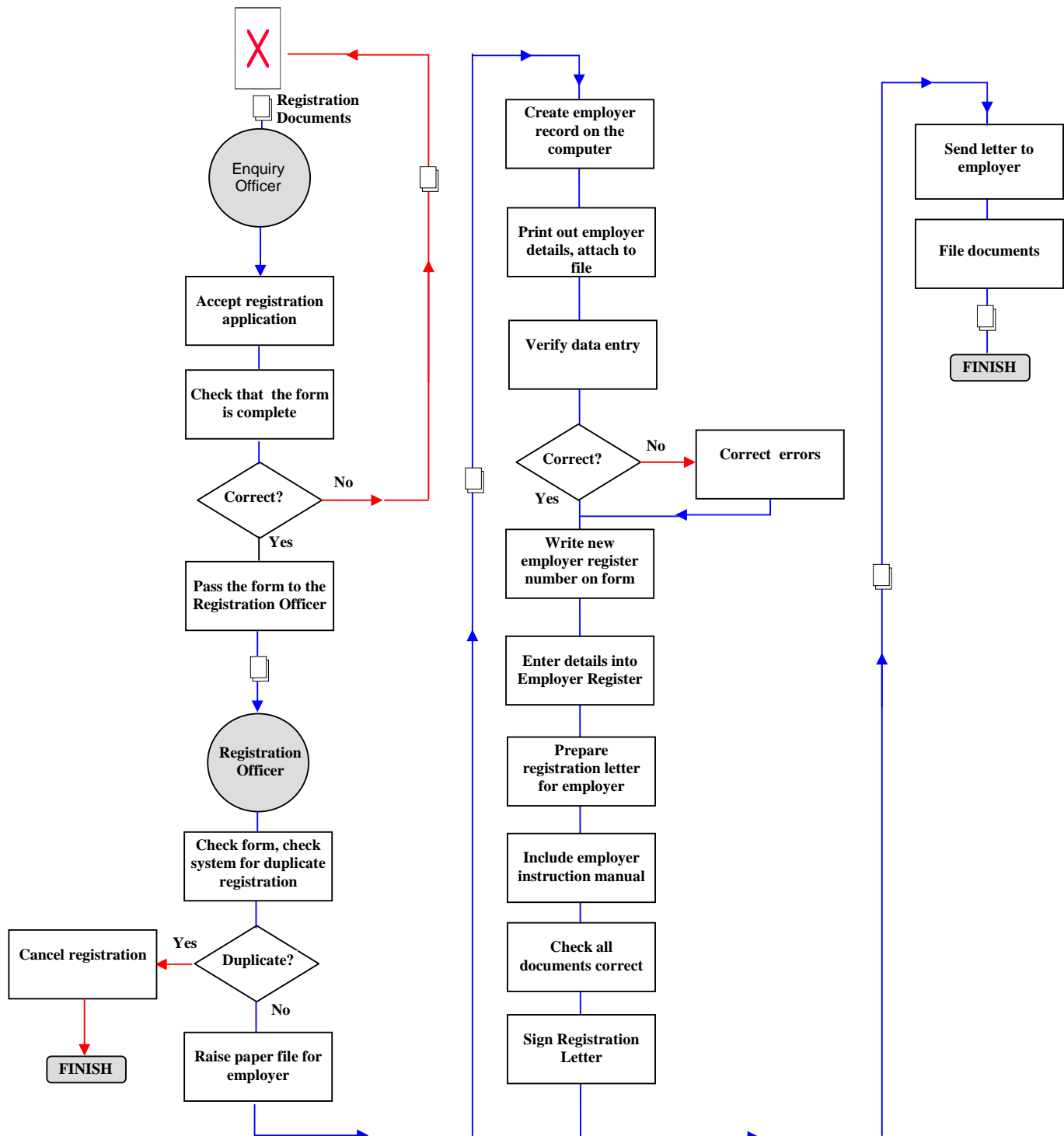
Figure 19.4 *Employer registration screen*



After the new record has been created, the details are printed out from the computer. A paper file is raised and the printout attached. A letter is prepared for the employer confirming the registration and advising the new employer number, and a copy attached to

the file. An employer instruction manual is also enclosed with the letter.

The letter and manual are then posted to the employer, and the paper file is filed away in the storage cabinet.

Figure 19.5 Employer registration workflow

(ii) Employee registration process

The processes used for employee registration are also mostly manual. Employers or employees can collect the employee registration forms (NPF 6) from the SINPF office or the forms can be posted. The employee completes the form, including a thumbprint, which must be witnessed by the employer before being lodged at the SINPF office.

The forms are collected at the counter by the Enquiry Officer or received by post, and passed to the Member Registration Officer, who checks they are complete and correct. If incomplete the form is returned to the

employer for correction. There is no additional documentation required for employee registration – no proof of identification, or proof of date of birth.

The Registration Officer checks the computer records for duplicate registration – if a record already exists for that employee, the registration is cancelled. If no previous registration, the Registration Officer calls up the new member screen and enters the employee details, creating a new member record for the employee

Figure 19.6 Membership details screen

SINPF MAIN MENU - sa / sa (Server = SINPF2_NT)

Accounts Payable Cash Book Receipting General Ledger HRM Provident Fund Loans/Invest EIS System

Authorised Menu Options

- Menu Options
 - Accounts Payable
 - Cash Book
 - General Ledger
 - Loans
 - Provident Fund/Employer
 - Setup - Maintenance
 - Masterfile Maint - Employer
 - Employer Registration
 - Employer Details
 - Employer Branches
 - Employer Contacts
 - Employment History
 - Employment Terminations
 - Masterfile Maint - Member
 - Member Registration
 - Member Details
 - Member Nominees
 - ID Cards Requests
 - Employment History
 - Maintenance Logs
 - Member Withdrawal Related
 - Member Pledge Related
 - Contrib Schedules - Monthly
 - Contrib Schedules - Quarterly
 - Unidentified Trans
 - Member Journals

Provident Fund - Maintain Member Details

Save Refresh Print Help

Member Reg No	1224890	Old Member Reg No		Member Type	Compulsory
Title/Surname	Mr	Fakarii		Npf Branch	Head Office
First/Middle Name	Don	Daniel		Sex	Male
Member Alias Name				Marital Status	Single
Father's Name	FRED FAKARII			Occupation	Computer Analy
Mother's Name				Circa Birth Date	
Spouse Name				Birth Date	31/07/1980
Spouse NPF Reg				Death Date	
Postal Address	SOLOMON ISLAND NATIONAL PROVIDENT FUND P.O. BOX 619 HONIARA			Phone No	
				Fax No	
				Mobile No	
Home Address	HONIARA GUADALCANAL PROVINCE			Tax Id	
				NPF Reg Date	10/03/2004
				Personal Address	
				Nationality	SBD Solomon I
Email Address				Member Status	Active

You Are In Edit Mode - Enter Member Reg No

start SavedReports on 'Sol... Document1 - Microsof... SINPF MAIN MENU - s... 3:40 PM

A member ID number is generated by the computer system and allocated to the member record. The number is also recorded on the form, and the member details recorded in the member register (manual process).

An ID card is then typed up, and the card and a nominee form are sent to the member via the employer.

When the completed nomination form is returned to the office, it is passed to the Registration Officer, who checks that it is correct, and has been correctly witnessed. The original registration form is retrieved, and the Registration Officer calls up the member record to the screen and updates the record with the nominee details.

The registration and nominee forms are then filed away.

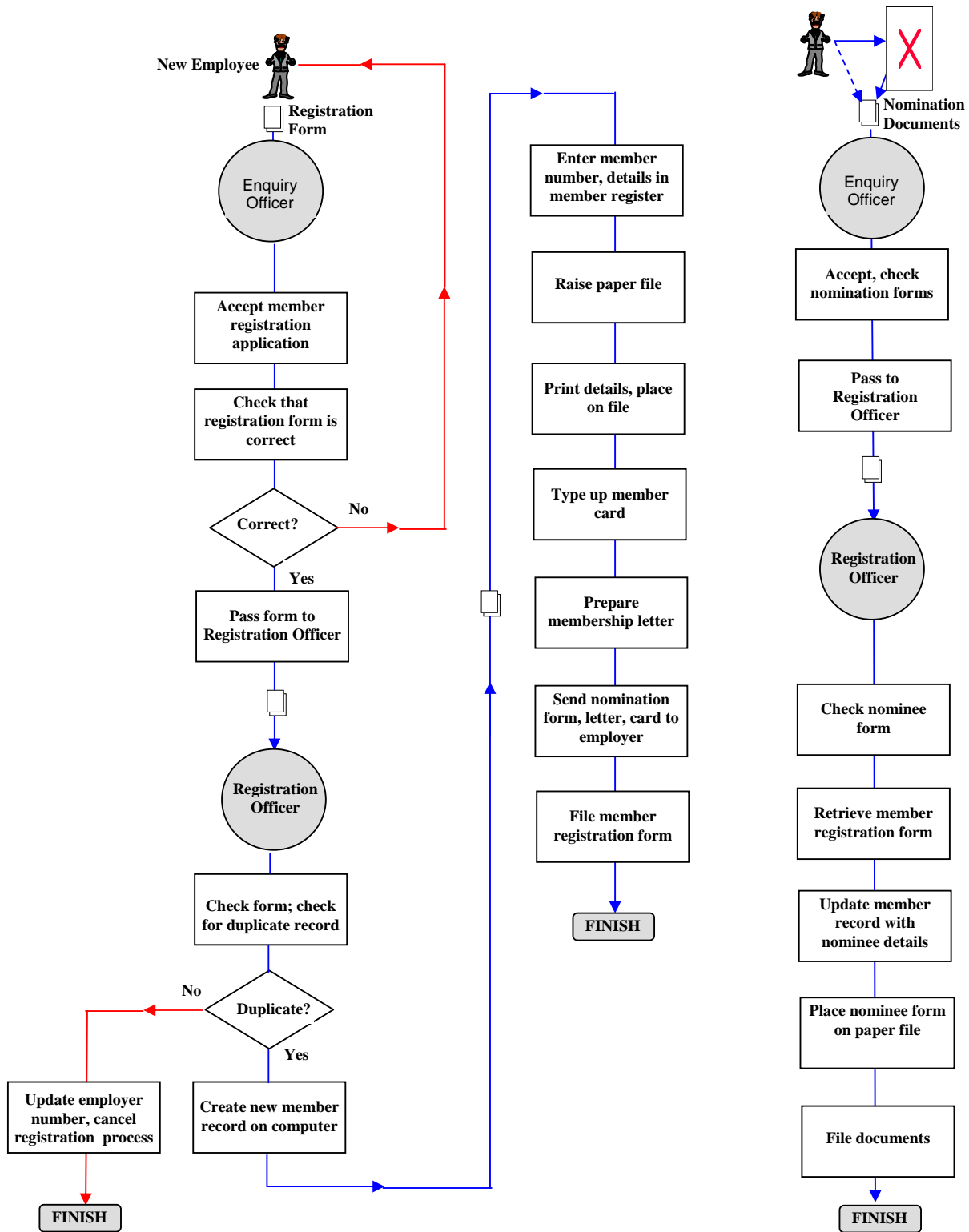
Issues:

- Delays in registration processing – it can take up to 3 months to issue the member's ID card; employees may

have terminated their employment by the time the card has been received by the employer, and the number of cards returned is not known but is quite substantial. No action is taken with returned ID cards – they are simply filed away in cabinets,

- Duplicate registrations – this may result from the delay in the registration process, where members have left employment before the card is issued, and are unaware that they have been registered. Also names given may be incorrect (e.g. father's name used, incorrect spelling etc). This could also result from not having any ID check in the registration process,
- Large number of the annual member statements returned by employers because of terminated employment, and
- Complaints by employees that they have not been issued with cards, numbers

Figure 19.7 Employee registration processing



(iii) *Claims section*

The Claims Section has 2 Claims Officers responsible for: the acceptance, checking, data entry and verification of withdrawal applications. Withdrawals may be made under the following circumstances:

- Retirement at age 50 and above,
- Compulsory redundancy at age 40 or above,
- Partial withdrawal on compulsory redundancy below 40 years of age,
- Permanent incapacity preventing employment,
- Permanent migration to another country, and
- Death of the member.

In general the withdrawals paid to members is the sum of their accumulated contributions plus the interest allocations that have been determined by the board.

To support their claim applicants must provide evidence as follows:

Retirement	Letter of termination from employer 2 statutory declarations
Redundancy	Redundancy letter from employer Certificate of Redundancy
Permanent migration:	airline ticket, passport, work permit, termination letter from the employer
Permanent Incapacity:	2 Certificates of Incapacity Medical report from a doctor Results of laboratory tests
Death of member:	Death Certificate Burial Certificate Letter from employer (where applicable).

(iv) *Withdrawal process*

Members attend the counter at the SINPF to enquire about withdrawals – the Enquiry Officer will initially advise them whether they meet the conditions for entitlement, and what supporting documents are required, depending on the type of withdrawal.

The applicant completes the withdrawal application, attaches the required documents, has the application witnessed (signed and stamped) by an appropriate person (eg employer, holder of a senior management position in the private or public sector) and lodges it with the Enquiry Officer.

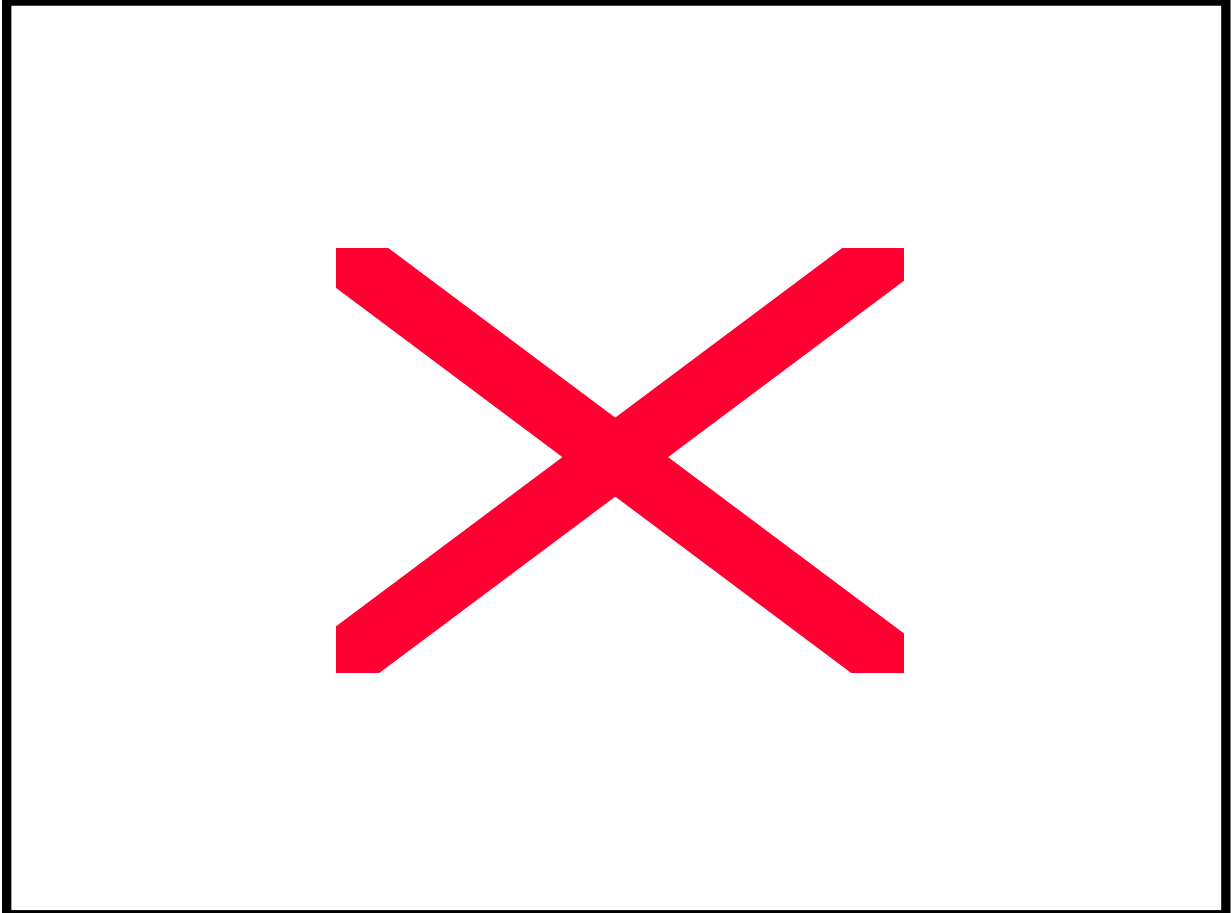
The Enquiry Officer checks the application and supporting documents, and if correct:

- Checks the application against the member's original registration form,
- Checks for outstanding loans,
- Ensures that contributions for the member are fully paid and posted to the member's account,
- Attach the member's membership card to the application,
- Takes a photograph of the member,
- Notifies the member of an expected completion date for the claim,
- Raises a paper file and attaches the documents, and
- Passes the file to the Claims Officer in the Members' Accounts Section (Operations).

The Claims Officer:

- Checks the application and supporting documents,
- Checks for outstanding loans,
- Checks the witness qualifications,
- Calls up the member's contribution history record on the computer and prints out the details,
- Checks the contributions history,
- Attaches the printout to the file, and
- Prepares a payment voucher.

Figure 19.8 *Members withdrawal screen*



The file is then passed to the Supervisor where all documents are checked, and if correct, the claim is recorded in the claims register and recommended for approval. The file is then passed to the Manager (Operations), who again checks the claim, and if correct, approves the payment.

The file is then passed to the Members Accounts Section (Finance), where the Finance Officer:

- Calculates the interest due,
- Calculates the total amount payable,

- Calls up the member withdrawal screen and creates a withdrawal record writes and signs a cheque for the total amount, and
- Records the claim details recorded in the Payments Register.

The cheque is then ready for collection by the member, and the file is returned to the Claims Officer for filing. (Claims take approximately 10 days to process.)

Figure 19.9 *Members withdrawal claim*

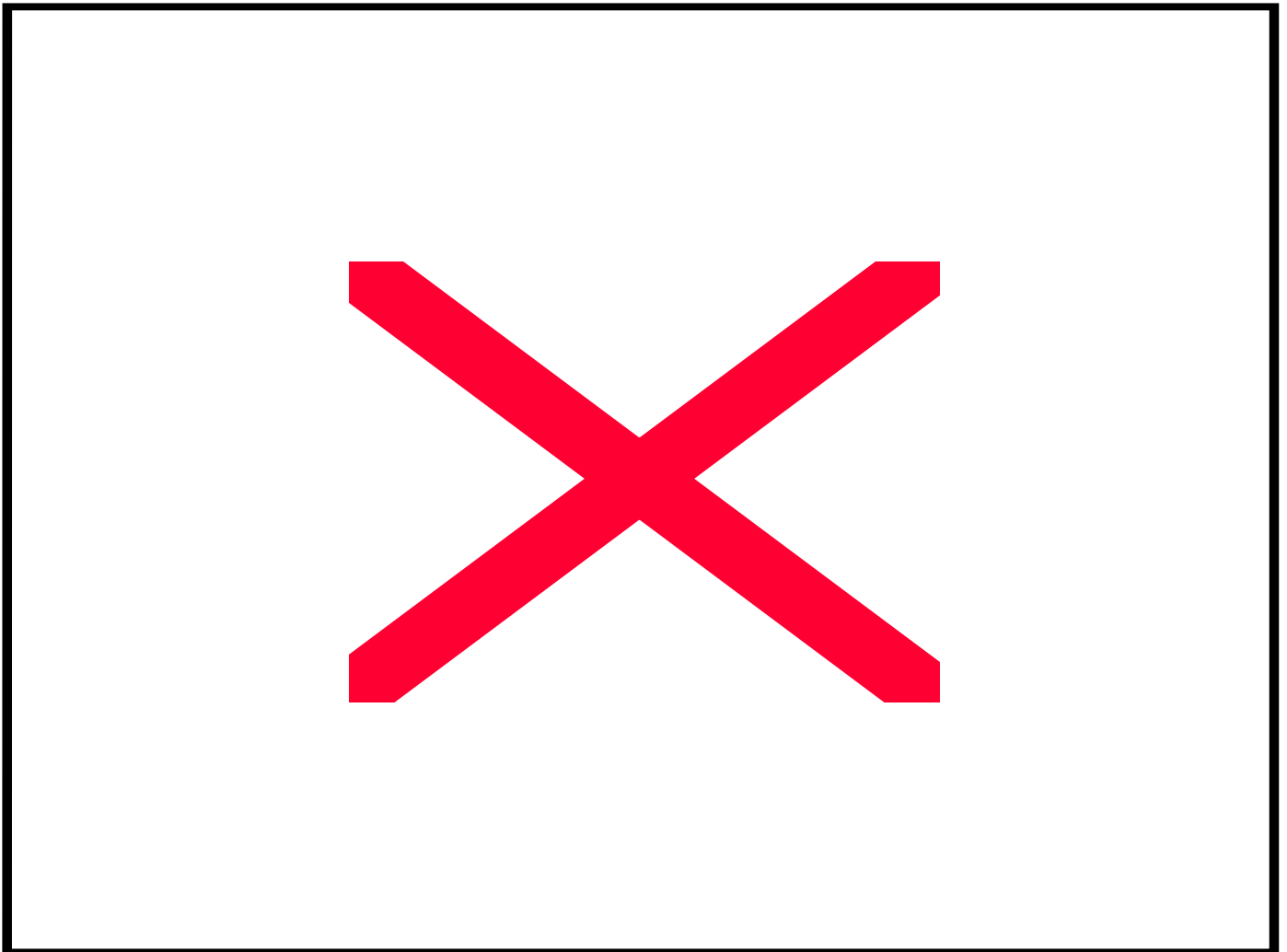
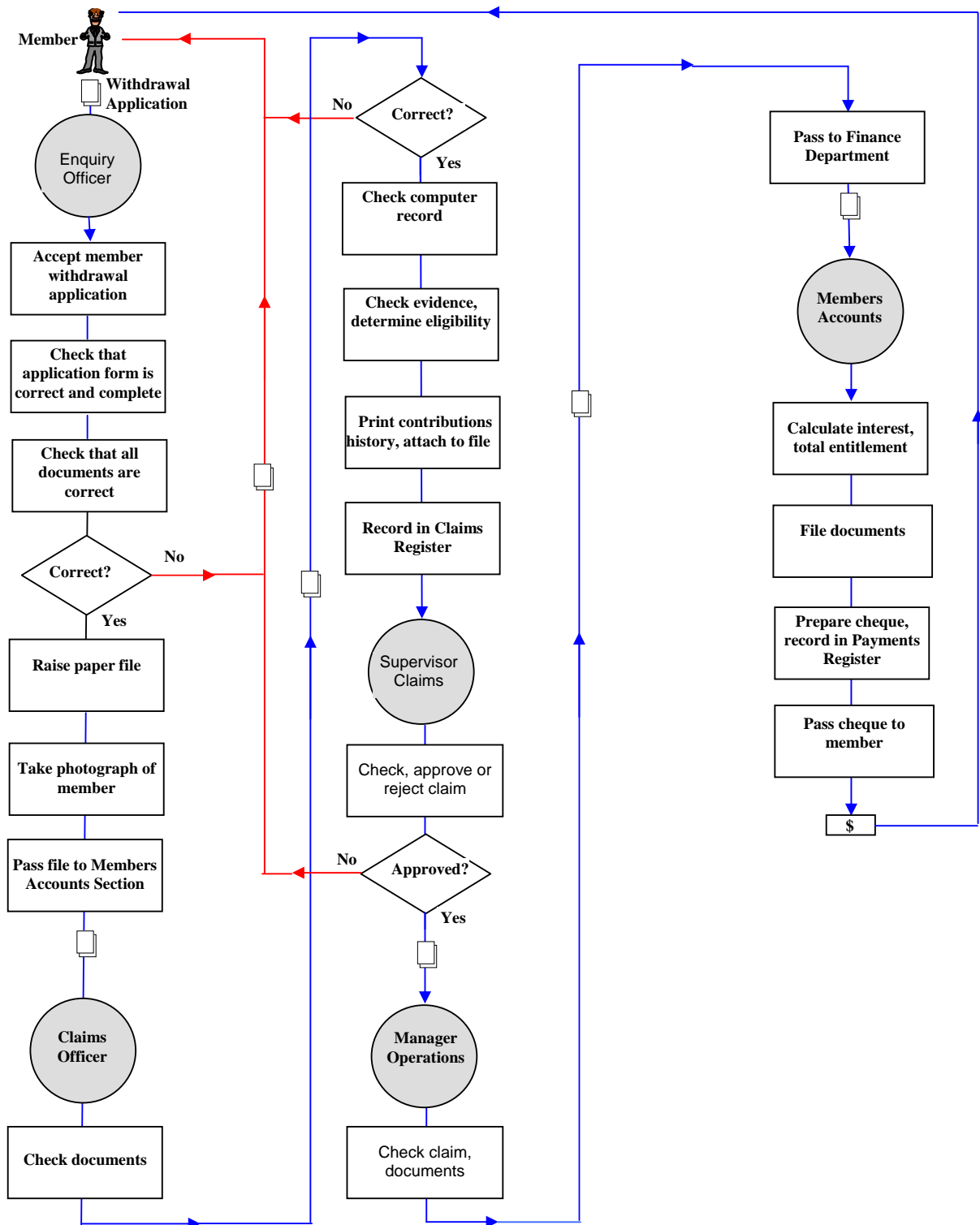


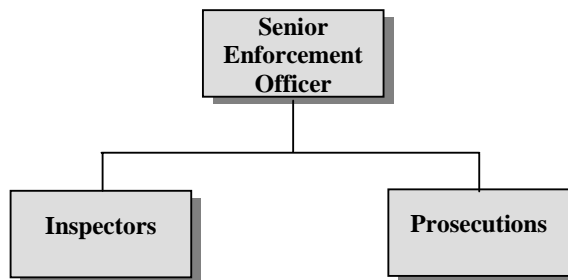
Figure 19.10 Member withdrawal processing

(iv) **Compliance section**

As with most provident funds, enforcing compliance with the law regarding the payment of contributions is a major problem for SINPF. There are approximately 4300 employers registered with SINPF, of whom 2400 are active employers and 1900 inactive employers. It is estimated that there are 760 unregistered employers who should be registered.

SINPF has 10 inspectors and 2 prosecutions officers, managed by a Senior Enforcement Officer:

Figure 19.11 Enforcement section organisation



Each month a list of all those employers who failed to pay their contributions (Contributions Compliance List) is prepared by the Employer Accounts Section and forwarded to the Senior Enforcement Officer, who allocates the tasks of employer visitations to the individual inspectors.

The inspectors check to ensure the contributions still have not been paid, then make arrangements to visit the employers, either by appointment or unannounced. The inspector takes the required documentation (eg his Inspector's warrant, blank contributions forms, employee registration forms, a copy of the Act, an Inspector's receipt book etc), and interviews the employer about meeting his legal obligations to pay the required contributions amounts.

During his visit with the employers the inspector requests payment of the due amount; or tries to get an agreement from the employer that the contributions will be

paid, either in full or by instalments. If the employer pays, the inspector issues a receipt and on arrival back at SINPF hands the cash and the receipt book to the Cashier.

The inspector later checks on those employers with whom he has made an arrangement to pay, and if they haven't paid by the due date, should recommend prosecution.

If during the visit the employer indicates that he refuses to pay, then the case should be recommended for prosecution immediately.

Where the relevant employers are located in the provinces, the follow-up should be initiated by mail, demanding payment within 14 days; if no payment is made within that time, a second letter demanding payment within 7 days is sent. If no payment has been made by the end of that period, the case is marked for a visit when an inspector next visits that province.

At the end of the month the Senior Enforcement Officer compiles a report of the daily visits made by the inspectors during the month and submits this to the General Manager through the Manager Operations.

(v) **Surcharges**

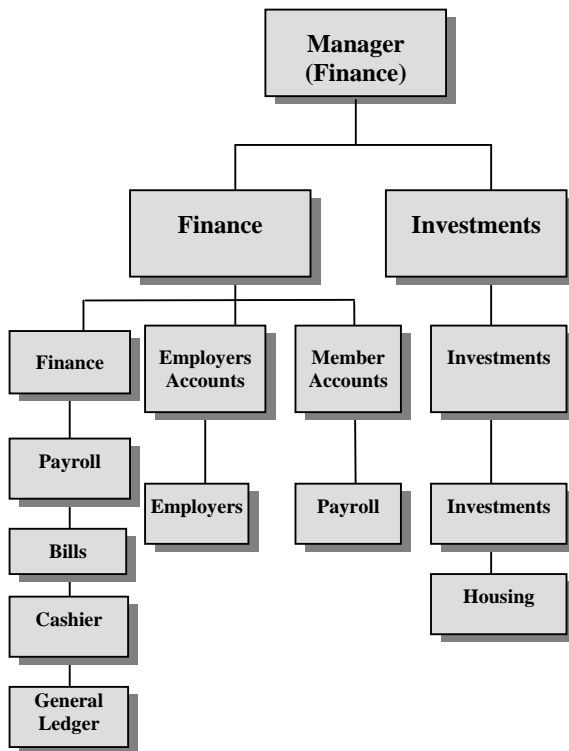
Surcharges of 2 per cent per month of the amount outstanding are applied where employers do not pay their contributions by the due date. A surcharge letter is sent to the employer reminding him of the obligation to pay by the due date, and demanding payment within 14 days.

If the surcharges are not paid by the due date, onsite visits demanding payment are also undertaken. Where a visit is required for non-payment of contributions, the surcharge demands are also made.

19.2.2 Finance department

The Finance Department has a total of 30 staff organised as follows:

Figure 19.12 Finance Department organisation



(i) Payroll section

The Payroll Section has a staff of 2 and is responsible for the maintenance of the SINPF staff salary system. They use a software salary package, Micro-pay, to manage the salary records. The Personnel Section of the Administration Department maintains day-to-day personnel records, and advise the Payroll Section when changes need to be made to staff salaries – e.g. new recruits, personnel resignations, retirements or redundancies, staff on higher duties, promotions etc.

The calculations are made and changes applied by the payroll staff, and for the monthly salary payments a listing showing individual staff salary amounts due, and the bank account numbers of the staff is printed out, and a cheque drawn for the total salary amount. The cheque and the listing are taken to the bank, and the salaries deposited directly into the staff bank accounts.

(ii) Bills section

The Bills Section has 2 staff who are responsible for the amounts owing for goods and services provided to SINPF, eg office supplies, stationery, fleet maintenance etc. Requisitions for the purchase of goods/services are raised and submitted for approval by the General Manager or the Finance Manager, which are then passed to the Bills Section.

A purchase order is raised, submitted for approval by the Senior Accountant or the Manager Finance, and taken to the supplier, who provides the goods/services with a statement. An invoice is then issued by the supplier and delivered to the Bills Section, who reconcile with the statement/delivery docket.

A payment voucher is raised from the Order Book, approval sought from the Manager Finance, a cheque raised for the invoice amount, the payment recorded in the payments register, and the payment authorised by the Senior Accountant, the Manager Finance, and the General Manager.

The supplier is then advised that the cheque is ready for collection.

The documents are then filed away in Payment Voucher Number order.

The bank statements are later reconciled with the Order Book by the Bills Section.

(iii) Employer accounts section

The Employer Accounts Section has 4 Employer Accounts Officers who process the monthly contributions schedules submitted by the employers together with their contribution payments. They also manage the employer suspense accounts, as well as the surcharges applied for late payment of contributions.

(iv) Contributions processing

Contributions (7.5 per cent for employers, 5 percent for employee) are payable by the employer at the end of the month following

the month during which employees are paid their salaries. If the employers are late with their contributions, a surcharge (2 per cent) is payable.

SINPF provides blank contributions schedules (Form A) to employers, who need to complete them each month from their payroll records. The forms contain the following information:

- Employer name & address,
- Employer number,
- Contributions month,
- Employer number,
- Employee number,
- Employee name,
- Employer contribution,
- Employee contribution,
- Total contribution for the employee, and
- Schedule total.

Each month the employer brings the schedule and the payment to the SINPF office and hands them to the cashier. The cashier calls up the employer record on the Receipts System on the computer, enters the contributions data and prints out 2 receipts – one is signed by the cashier and given to the employer, the original retained by the cashier.

At the end of the day the schedules are collected by the Employer Accounts Section of the Finance Department. The Employer Accounts Officer checks the schedules:

- checks the contribution month,
- checks that the calculations are correct, and

- uses the employer number to call up the receipt record, checks the receipt amount against the schedule amount.

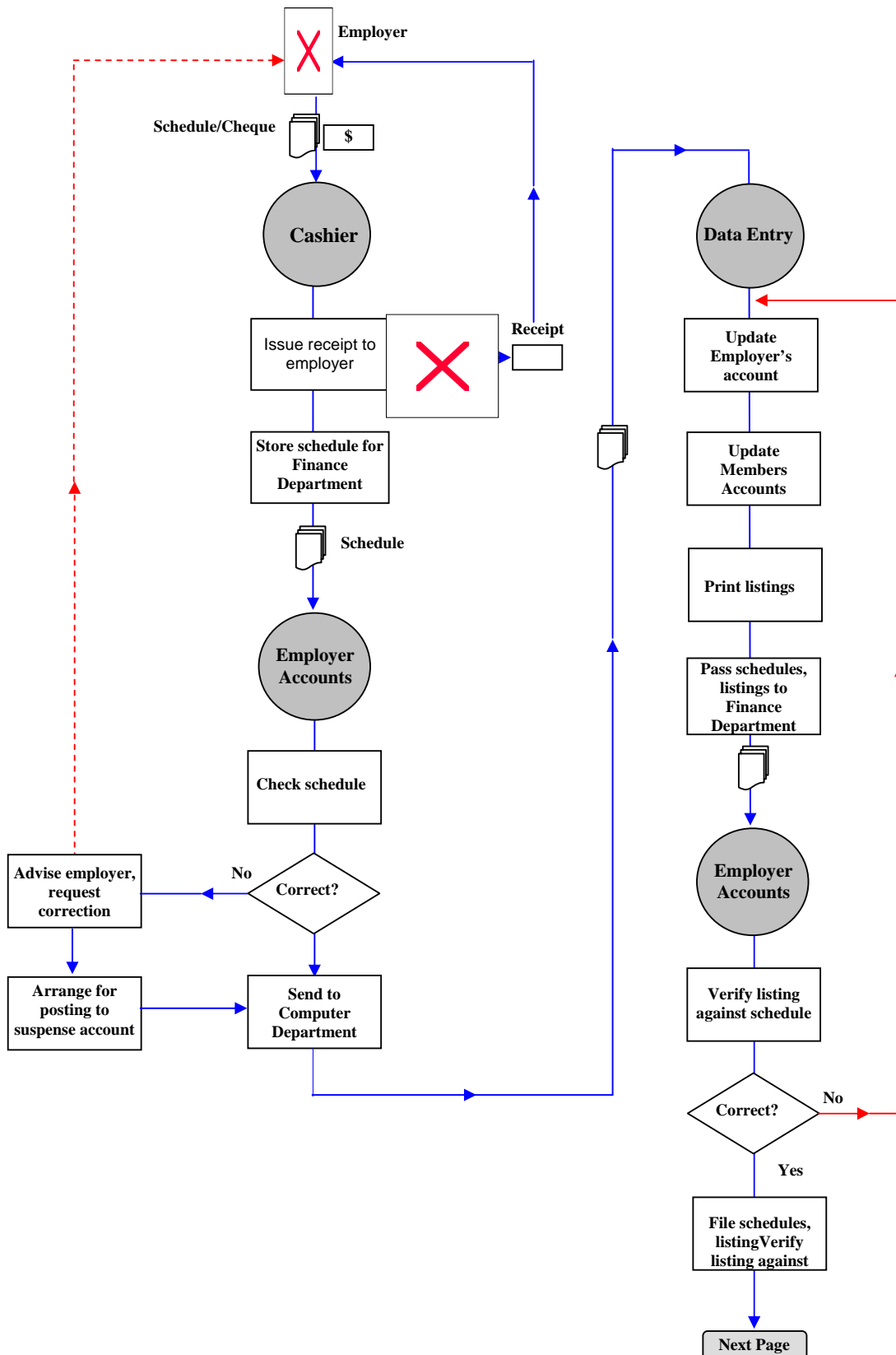
If there are errors in the calculations or the contribution payment does not agree with the payment amount, the schedule and payment are accepted but posted to the employer suspense account (member amounts are not posted). The employer is asked to rectify the error, after which the contribution amount can be removed from suspension, the employer account correctly updated, and member accounts may then be posted.

The Employer Accounts Officer authorises data entry and passes the schedule to the IT Department, where the operator checks that all members have registration numbers, names correct etc.

Where members do not have numbers, the operator will search the computer records by name to obtain the number; if the member is not registered, the schedule is still accepted, the individual amount is marked for posting to a suspense account, and the employer requested to have the member registered. Where no errors are detected, the operator has to bring to the screen each individual member record to update their account.

After the computer records have been updated, a listing of the updated records is produced, and the list and the schedules returned to the Employer Accounts Officer, where the lists records are verified against the original schedules. Any data entry errors are corrected by the Employer Accounts Officer. The schedules and lists are then filed away.

Figure 19.13 Contributions schedule processing



(v) *Suspense accounts*

Contribution payments are posted to suspense accounts where there are problems with the contribution payment or schedule that prevent the posting to the employer account – eg where the amount paid does not equal the schedule amount due, or where payment has been made but no schedule submitted etc.

The employer suspense record is created in the contributions computer system, with the record containing:

- The employer name,
- The contribution amount paid, and
- The contribution month and year.

The amounts are held in suspense until the problems are rectified by the employer, after which the amounts can be posted to the employer account and subsequently the member accounts, and the suspense record cancelled.

There are many records currently held in suspense – the actual number is unknown – and these are a major problem for SINPF.

(vi) *Surcharges*

The Surcharge Officer examines the monthly receipts recorded on the Receipts System, and identifies all late payments for the month. A record is created on the Surcharge system for each late payer, and a list of late payers produced.

Surcharge notices are produced manually, and posted to the respective employers.

A surcharge list is passed to the Compliance Section for follow-up with the employers.

Surcharge payments are made to the cashier by the employer (or via the Compliance Officers who can collect from the employers), and receipts issued. The Surcharge Officer also uses the Receipts System to identify cases where the surcharge has been paid, and subsequently updates the surcharge system thereby cancelling the surcharge demand.

In addition, lists of employers who fail to pay contributions are produced from the contributions system and forwarded to the Manager Operations and the Compliance Division for the inspectors to follow-up.

19.2.3 Member accounts section

The Member Accounts section has 4 Member Accounts Officers who have the responsibility for the processing of members' applications for withdrawal and loan Pledges.

The details of withdrawal processing have been outlined in Paragraph 20.2.1.4

(i) *Loan pledges*

Where a member wishes to apply for a loan from a bank or lending institution, the member may make an application to SINPF to use a portion of his account as security for the loan.

If the application is approved, the member may pledge one third of the account balance; a second application may also be pledged for half the remaining balance.

The member requests a pledge application from the Enquiry Officer at SINPF, which must be completed by both the employer and employee. The Enquiry Officer will call up the member account screen and check the member's details, and also examines the member's paper file before passing over the form.

The completed form is returned to the Enquiry Officer, who checks all details before passing it to the processing officer in the Members Accounts Section.

The form plus duplicate are then sent to the relevant bank or financial institution where the bank loan details are recorded on the form, and the duplicate retained. The bank /lending institution returns the original form to the SINPF, where it is examined again and if correct is passed to the Senior Accountant and the Finance Manager for approval.

After approval the details are recorded in the Loans Register, the members account screen is called up and the details of the loan pledge entered, and the approved application returned to the bank/lending institution. The bank/lending institution certifies the application and returns it to SINPF.

The computer record is again updated, and the application filed away.

If the member repays the loan to the bank, the bank sends a letter to the SINPF advising that the loan has been repaid and the pledge should be cancelled. The processing officer attaches the letter to the file, calls up the member's record to the screen, and cancels the pledge.

Where the member has defaulted on the loan and his loan payments are 6 months in arrears, the bank/lending institution may apply for the pledged withdrawal of the agreed amount.

The bank/lending institution submits a Lender's Claim Form to SINPF together with a loan repayment statement showing at least 6 month's arrears, and an acknowledgement by the member.

The processing officer checks the application, ensuring that there are 6 months of loan repayment arrears, and that the claimed amount is not more than two thirds of the member's account balance

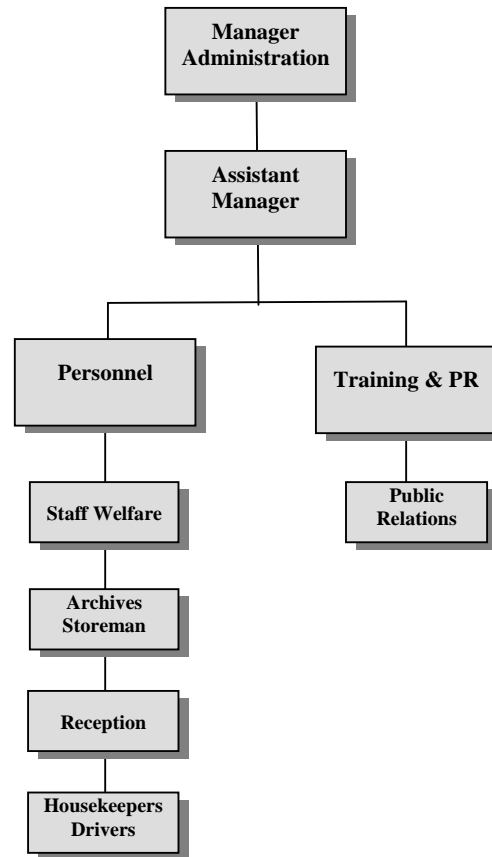
The claim and documents are then passed to the Senior Accountant for checking and a recommendation for approval before submitting it to the Manager Operations for examination and approval.

After approval the claim is submitted to the Payments officer, who checks the claim and raises a cheque, which is made available to the bank/lending institution.

19.2.4 Administration department

The Administration Department has a staff of 15 organised as follows:

Figure 19.14 Administration Department organisation



The main responsibilities of the Department include:

- The maintenance of the personnel records (leave, attendance, staff appraisals, higher duties, etc),
- Cash advance for staff (for home travel on leave etc),
- Travel arrangements for staff,
- Recruitment,
- Promotions,
- Provision of payroll update data to Finance Department,
- Staff welfare,
- Management of staff accommodation,
- Training,
- Public relations,
- Fleet management,
- Stationery and office supplies, and
- Management of the archival system.

19.2.5 Investments department

The Investments Department has a staffing complement of 10 responsible for the investments of the fund, including the Housing Loans Scheme.

The Investments Department was not included in the review, which concentrated on operational processes and IT.

19.2.6 Property department

The Property Department has a staff of 15 responsible for the maintenance of property owned by the SINPF. These staff include:

- Manager and assistant manager,
- 2 electricians,
- 2 carpenters,
- 2 plumbers,
- 5 housekeepers, and
- 2 ground staff.

The Property Department was not included in the review, which concentrated on operational processes and IT.

19.3 Information Technology

The previous contribution system of SINPF was COBOL based application software that was more than 10 years old and NCR Unix computer hardware that is no longer technically supported by the suppliers.

For the past few years, SINPF has invested considerable financial and human resources in the implementation of several information systems. Most projects reached the final stage of parallel processing and user training but have not been completely converted to the new systems.

In 1997 SINPF outsourced its system development to external consultants to replace the COBOL system with a new system containing modules covering:

- Contributions,
- Accounts payable,
- General ledger,
- Receipting, and
- Investments.

Full implementation of this system (NPF2000) was unsuccessful, and the contract was terminated in 2001.

SINPF subsequently attempted to implement the *Greentree* financial system, the implementation of which was also unsuccessful was unsuccessful and suspended.

In 2004 ILO commissioned a review of the IT situation in SINPF, and the consultant presented a number of options for SINPF to consider. He saw the highest priorities as being the implementation of a contributions system and a financial system.

Four options were presented for developing and implementing the contributions system, and four also for the financial system – these involved looking for new systems, or combinations of redeveloping the NPF2000/Greentree systems.

The SINPF considered the options and decided to redevelop the NPF2000 system, a task which is currently underway.

The NPF system is being partially used - however, only a few modules have been successfully implemented including the nomination, cashier and member pledges modules. The receipting, human resources and surcharge systems are operational as stand-alone systems.

Detailed user requirements have been specified and a consultant based in New Zealand has been contracted to implement the changes. The consultant had been previously employed by the company that developed the original NPF2000 system, so is familiar with the program construction. He is working onsite in Honiara with the SINPF staff, and expects to complete his current assignments in the immediate future. Tasks for the consultant include the further development of:

- The contributions system,
- The surcharge system,
- The general ledger system,
- A withdrawals system, and
- An investments/loans system.

It is understood that the new financial system is ready for implementation commencing with the input of data for this current financial year. In his 2004 review the ILO consultant reviewed the hardware and software of the SINPF system, and his observations are reproduced here:

“The current SINPF contribution system is an NCR UNIX based system that is more than 10 years old. The NCR hardware is now obsolete and no longer supported; and, spare parts are difficult to source. The NCR UNIX operating system is also a very old version that is also obsolete.

Fortunately, the UNIX system is still operational today in SINPF. However, from a point of view of business risk management, continuous use of the UNIX system involves a potentially serious risk of hardware and operating system failure that will result in disruption to the SINPFs core IT operational functions.

The COBOL programming tool is outdated with scarce availability of programmers and skills. Maintenance of the COBOL application requires enormous effort and is inefficient compared newer technology.

The NCR hardware is also running out of disk space due to the rapid growth of contribution data. Since the NCR hardware requires specific types of hard disk, it is difficult to source it with reasonable timeframe. Recent experience shows that an average duration of the product technical support for computer hardware is 3-5 years. Trends indicate that this period is dropping steadily.

In view of the above difficulties in maintaining the UNIX based system, it is supported that the SINPF board and management have decided to replace the UNIX based COBOL contribution system to a platform that is more efficient and gives a lower risk of business disruption.

Since the UNIX system is the primary and core computerized business application with SINPF, detailed planning and careful management must be accorded to this

fragile system until it is fully decommissioned.

19.3.1 Observations on other hardware and software

(i) Computer network, server types and operating system platforms

SINPF uses industry standard networking equipment that includes TCP/IP and structured cabling and Unshielded Twisted Pair Category 5 (UTP CAT5) cabling.

SINPF uses HP and INTEL based server systems. A few servers will be reaching the end of their productive years but they can be used for less demanding functions such as secondary file servers, data backup servers, Internet proxy and firewall servers in the future.

The use of industry standard networking equipment provides the platform for a responsive network, efficient network management and lower operation costs. It also provides the platform to easily upgrade the network speed and bandwidth from 10MB, 100MB and 1000MB per second as required by the business applications in the future.

The current cabled computer network is also capable of with integrating wireless technology that is fast becoming popular, flexible and cheap to implement.

(ii) Operating system

In the Microsoft Windows platform, Windows NT 4.0 is the primary operating system at SINPF. Newer versions of Microsoft Windows operating system namely Windows 2000 Server and Windows 2003 Server take advantage of the Internet capabilities, optimised for newer versions of business applications and better management of IT resources.

Microsoft Windows NT 4.0 will no longer be supported by the end of 2004. Though it is not a critical issue in relation to the upgrade of the business applications, it may be a good opportunity to begin to build

technical expertise in the Windows 2000 & 2003 Server operating system and develop the Active Directory (AD) structure in preparation for an operating system upgrade in the future.

(iii) Visual Basic & Crystal Report Writer

The NPF2000 system was initially developed using Visual Basic 5 (VB5) and upgraded to Visual Basic 6 (VB6). The NPF2000 system technology platform is approximately 4-5 years old. The current releases of Visual Basic are VB 2000 and VB.net. Therefore, the upgrade to VB 2000 or VB.net should be considered in the future after discussions with the suppliers and developers of NPF2000.

(iv) MS-Exchange 5.5

SINPF uses MS-Exchange 5.5 as the electronic mail server. Currently released version of MS-Exchange is MS-Exchange 2000. Although the upgrading of email server is not a high priority and may not be necessarily in the short-term business requirements, it is important to put in the medium-term IT infrastructure upgrade plans.

(v) Uninterrupted power supply

SINPF has invested in a large Uninterrupted Power Supply (UPS) unit that caters for most divisions of the organization. Considering the frequent electricity outage in Solomon Islands, it is a worthwhile investment. The UPS is an essential component in the IT set-up to enable continuous IT services at SINPF.”.

Some issues regarding the financial system also identified by the consultant included:

- Inadequate level of technical support for users from the supplier and contractors,
- Inadequate level of training to users and SINPF trainers,
- High turnover of staff ,
- Inadequate understanding of the system,

- Lack of in-house IT technical staff, and
- Lack of technical training for in-house IT technical staff.

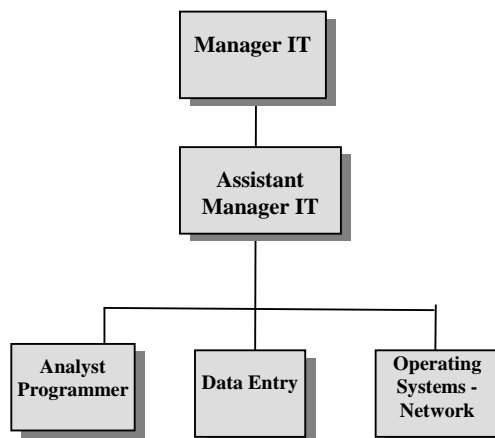
The consultant also recommended:

- The upgrading of IT infrastructure (upgrade NPF2000 to VB2000 or VB.net and Upgrade SQL2000+ and Windows 2003 Server,
- In the long-term, rewrite surcharge system from MS-Access to VB and SQL Server, and
- The creation of an IT Steering Committee.

19.3.2 IT Department

The IT Department has a staff of 6; 4 IT technical staff, and 2 data entry staff.

Figure 19.15 IT Department organisation



The IT Manager's position is currently unfilled – however the vacancy has been advertised recently and it is expected to be filled in the near future.

Of necessity the Department shares its responsibilities across its technical staff, including:

- The day-to-day operating systems tasks including:
 - start-of-day processing,
 - end-of-day processing,
 - backup, and

- maintenance of the IT assets register.
- The maintenance of the communications network,
- Database management,
- Supervision of data entry,
- amendments to, and development of locally written application programs (written using MS Access),
- the investigation and follow-up of user reported problems with the main application system,
- requests for changes to the applications systems,
- liaison with the NZ consultant,
- the provision of system support and Help Desk services to users, responding to requests for assistance on problems with hardware, application programs, operating systems, communications, proprietary software packages etc,
- the maintenance of computer security (control of access to the net, passwords etc),
- basic computer skills training for users
- on-the-job technical training for the IT staff,
- purchase of hardware and IT consumables,
- standby support for other departments after official working hours and during weekends,
- production of annual statements for all members each year, and
- the IT strategic plan.
- provision of IT support to the two Branch Offices.

The branch Offices at Gizo and Auki have been provided with computers, but use is limited to the answering of enquiries and printing of member statements only. Online access to the mainland was trialled, but found too expensive.

The branch office databases are refreshed every 3 months by replacing the hard drives.

19.4 Conclusions and recommendations

19.4.1 Operations

There is an urgent need for the SINPF to undertake a complete review of all of its operating procedures, every Department included, with a view to modernising its operations as an organisation as a whole. The current operations appear to reflect the way things were done 15 or 20 years ago, with minimal change. It would appear these manual systems have never been subject to review since the introduction of computer systems; the computer systems seem to have been used for data storage rather than to improving the operational environment.

Much reliance is placed on the recording in manual registers and the heavy use of paper files. No doubt this has resulted from the difficulties experienced with the computer systems in the past, but with the current actions being undertaken to re-develop the applications programs the time is ripe for a much-needed review of operational processes. The current processes are resource intensive and very slow, resulting in poor service delivery to customers. There is much repetition in the processes, with paper files being passed from one section to another and between Departments, in a very inefficient manner. Every action should be questioned as to its need and effectiveness, and whether it can be eliminated or improved in conjunction with the use of the computer system.

A review management committee should be established to manage the review process; this should be at the department head level, including the IT Manager, and chaired by the General Manager. The role of the committee initially would be to draw up a review strategic plan and timetable, and identify and allocate suitable resources to enable the plan to be properly implemented.

At the same time a study of resource requirements should be undertaken; the resultant new procedures should result in considerable resource savings by using the computer systems to minimise manual processing.

The goal should be to eliminate the use of manual recording completely, and to eliminate the use of paper files during processing.

19.4.2 Employee registration

The current system of registration needs immediate attention; it was indicated that it can take 2-3 months for the issue of membership cards – this is completely unacceptable, and is the cause of many suspense account records. Members appear on the contributions schedule without member numbers, without which the member contributions cannot be posted. Also it was explained that it is not uncommon for registered employees to leave their employment before their membership card arrives, resulting in re-registration on re-employment. This results in double registrations, which is also of major concern, causing serious problems for contributions posting and resulting in suspense records. It was noted that there are whole filing cabinets filled with returned membership cards - the number is unknown, but it is obviously extensive.

The cause of the delays in the card issue process remained unexplained; however the need to use a typewriter to type the cards must be part of the reason – the cards should be computer produced. Stock letters should also be computer produced.

The current process of issuing the nominee form after the registration process is complete, needs changing; the nominee details need to be included in the original member registration form.

It is normal practice to require new members to produce some kind of identification validating their date-of-birth at the time of registration. These documents should be scanned into the computer system for retrieval during the retrieval process.

In general the target for completion of registration should be a couple of days, not months. The registration process should be completed before the first contributions are received for the member, to eliminate the

need to post member contributions to suspense accounts.

The issue of a membership certificate could also be of value to SINPF in terms of member perception and may be an encouragement to members to retain their membership number, thus minimising duplicate registrations.

The review of the registration process should be a high priority.

19.4.3 Employer registration

The Employer Registration Form needs to be examined with a view to seeing whether additional information should be included which could assist the inspectors in their compliance activities, especially in seeking out non-registered employers.

At the moment there seems to be no matching activities undertaken to find eligible employers who are not registered. Details such as the business registration number could be included, and matching sought from the business registration authority.

Issue of a certificate to employers could also be of benefit to SINPF, as both a public relations exercise and assistance in compliance. The possibility of including a requirement for each employer seeking licence renewal to produce a SINPF certificate could be investigated – no SINPF certificate, no licence renewal. There may be other authorities with whom matching could be undertaken – eg the taxation department.

19.4.4 Contributions processing

The most efficient method of the processing of monthly contributions schedules is the use of electronic media for delivery of contributions schedules, i.e. the employer recording the schedules on diskettes or CDs, or use of e-mail or the internet. It is understood that the new computer system will allow for this.

For the other employers the SINPF should investigate the possibility of issuing

monthly pre-printed schedules for use by employers. The current process involves the printing and delivery of pre-printed blank contributions schedules (Form A) which the employer is required to fill out with the employer details and the contributions details of each member – the membership number, the name, the employee start date, the employer and employee contribution amount and the total contribution amount. This is a resource cost to the employer, and can be a deterrent to the employer paying the contributions on time.

All this information is held on the SINPF computer, and could be pre-printed on Form A each month and sent to the employer for use for the next month's contribution. This would be a saving to the employer in the production of the schedule, as all he would have to do is enter change data on the form – add new employees, cross out terminated employees, and mark changes in rates of contribution where the employee salary has changed.

This method ensures the accuracy of the contributions data, as it is printed from the SINPF computer records, and saves considerable time and effort during the monthly data entry process, especially where there are no changes in salary or contribution amounts. In these cases there should virtually no data entry required, just a key to indicate posting should be carried out automatically.

Where there is a new employee, the operator needs to add the record; where there is a termination, the operator terminates that member record (e.g. by setting the contribution amount to zero, which would exclude him/her from appearing on the next schedule; where there is a change in the rate of contribution, the operator simply makes the change. There is no need to key in the numbers of any unchanged members, or look at their records. This should significantly reduce the time and effort involved in data entry, and should allow the data entry to be decentralised from the IT Department to the Employer Services Section.

Perhaps SINPF could do a survey (using the computer) of the schedules to see how much change there is in employee monthly salary to give an indication as to how much of a saving would result from the introduction of this system.

It is also extremely important to ensure that the data entered into the computer is accurate and complete at the time of data entry. The result of entering incomplete data (e.g. members without registration numbers) is an accrual of suspense records, the clearing of which becomes a major problem and is resource intensive. This can be prevented by only entering data that is complete. This requires a change in attitude on behalf of the employer and SINPF staff. The employers should be advised of their obligation to provide accurate and complete information along with the contribution payment (i.e. all employees must have membership numbers before they can be placed on the contributions schedule). Schedules should not be accepted unless they are complete and correct, and the payment should be regarded as *not made* until the correct/complete schedule has been lodged (i.e. surcharges should apply where the payment has been made but not able to be posted to members' accounts because of inaccurate/incomplete schedules. An alternative would be simply to refuse to accept the payment until the contributions schedule is correct and complete (as is done currently in one of the other Pacific Island provident funds).

This method would eliminate the need for any future suspense records being created; however the need to clean up all existing suspense records would still remain.

The introduction of the new computer system could be an ideal time to advise employers of the new approach dictated by the computer system

It was also advised that after 5 years of suspense the contribution amounts are moved into the General Ledger Account and thus lost to members. This would appear to be unfair to members, especially if the SINPF operational processes contribute to the reason for suspense records.

19.4.5 Compliance

Non-compliance with the contributions law remains a major problem for the fund, as with most other provident funds. The Compliance Section has a relatively large staffing complement – a senior enforcement officer, 8 inspectors and 2 prosecutions staff. The inspectors advise that they collect about SBD 400,000 – 800,000 per month in contributions, and SBD 10,000 – 20,000 per month in surcharges. However the number of cases referred for prosecution is small.

Differing views were presented on the activities and results of the inspectors. Inspectors feel that in the past cases had been referred for prosecution and had not been acted upon; the Legal Department feels that the inspectors are complacent about prosecutions.

Currently the Legal Department has one major case for prosecution, and is preparing for 6 other cases; it is hoped that success with the major case could have a positive compliance effect on other non-complying employers.

These issues need to be discussed between the Legal Department, the Manager Operations and the inspectors to clear up any misunderstandings and restore the motivation for referring non-compliant cases for prosecution. Perhaps regular meetings for information exchange could be arranged to discuss progress and action being taken in both areas – legal and compliance activities.

Special action should also be taken to identify and follow-up those eligible employers who have neglected to register.

Both the Legal Department and the inspectors complain of the lack of computerised information – while they continue to depend on paper files to chase information and evidence on defaulting employers the process is slow and resource intensive – often files can't be found. This could be considerably improved by the introduction of scanning equipment and a documents management system.

There is a need to be able to produce a variety of reports on defaulters (eg lists of defaulters by period of time since the last payment, by amounts of contributions owed, by number of employees etc).

19.4.6 Withdrawals

For withdrawals on the grounds of permanent incapacity, the applicant is required to obtain medical certificates from 2 separate medical doctors. It was advised that there have been cases where the doctors have issued certificates that have aroused suspicion of fraud.

For such action the SINPF should consider the option of appointing its own medical panel with the responsibility of examining each case for permanent incapacity rather than leaving it to individual medical practitioners.

Also all standard in-house documents used during the withdrawal processing should be created by the computer system – payment vouchers, calculation sheets, cheques etc).

19.4.7 Information Technology

The decisions on the immediate future of the applications programs have been taken. A consultant has been engaged to revive the NPF2000 system and complete the contributions recording system, the general ledger system, the loans and investments system, the withdrawals system and the surcharge system.

However the long term IT strategy also needs serious some serious examination and planning – this involves the close co-operation and involvement of all Departments. In association with the operational review, all Departments need to specify what they need in the long-term from the computer systems to increase their efficiency and effectiveness to the maximum.

One way to do this might be to examine the operational and IT systems of other Pacific Island countries.

This ILO project involves the review of the operations and IT systems of provident funds in 5 Pacific Islands – Vanuatu, Fiji, Kiribati, Samoa and Solomon Islands. While there are minor differences in activities across the funds, the major activities of the funds are the same – registration of members and employers, keeping member/employer details up-to-date, monthly collection and recording of contributions, withdrawals from member accounts, investment activities, financial reconciliation systems, personnel systems, management information systems etc.

Each of these funds has developed independent computer systems to basically undertake the same general tasks, either outsourcing the development to external consultants (incurring significant fees) or developing the systems in-house. Ongoing remote maintenance of each of the systems by consultants in other countries is also proving to be a continuing and expensive problem for the funds.

For the future it may prove useful and economic to look at the possibility of a regional approach for application software development and maintenance. IT managers could form a Regional Provident Fund IT Management Team, meeting regularly to discuss new applications development needs (e.g. Health Insurance, Workers' compensation, Pensions etc) to ascertain what benefits there may be in taking a common approach – either outsourcing development of a single system for a number of users, or in-house development by one fund for use by all funds. A Regional IT technical team may be a possibility by pooling the skills of the IT officers of the 5 islands to develop new systems. Ongoing systems maintenance could be undertaken using the same approach.

The same collective approach may be able to be taken with the Operations Departments of each of the Funds. There are many good ideas used by each of the funds in their approach to their operational processes, and there is a lot to learn from each other by a pooling of their ideas to come up with a “best practice” approach. A regional meeting of IT and Operations

Managers might be able to be arranged whereby each Island could give a detailed presentation of their operational processes and use of IT, with the idea of coming up with a “best practice” framework whereby all could benefit.

IT training and skills development could also be included in this approach.

Whatever the approach, the SINPF needs to develop a strategic plan outlining what it needs to do over the next 3-5 years. It is understood that an IT Steering Committee has been appointed; the development of the strategic plan should be the main focus of this Committee.

19.4.8 Training and skills development

Training and skills development are important ongoing requirements for any organisation, and it is recommended that there be an annual training needs assessment of staff, from which an annual training plan can be developed. Particular focus should be on management training, IT user training, and technical training for IT staff.

It is also recommended that job rotation for staff be given serious consideration as an aid to skills development, and as a way of implementing change within the organisation.

The operational review should result in major changes to the way the organisation operates, and this should provide ample opportunity for job rotation.

Particular attention should be given to technical training for IT staff. Most organisations are becoming more and more dependent on IT systems to perform their day-to-day operations; IT systems are undergoing change more swiftly than ever, and it is important to keep IT staff up-to-date with technological change.

One suggestion may be to combine with other Pacific Island country Provident Funds who would have the same needs in investigating training requirements and

courses and perhaps taking a regional approach to such technical training.

19.4.9 Change management

There is no formal hardware fault reporting system (although as equipment ages its performance is kept under review). It is standard practice in many organisations to formalise fault reporting by using a standard "fault docket" system where the faults can be recorded and monitored, and a "request for change" form for recommended enhancements to the systems.

It is recommended that a *fault docket* and a *request for change* form be designed and used for reporting faults and enhancements.

19.4.10 Backup

Corporate data is one of the most important assets of any organisation, and backup procedures are highly important. At the moment backup is done daily and held onsite – this procedure needs urgent review. It is recommended to further enhance the backup cycle from a daily backup to a weekly, monthly, and annual cycle. This means that in the event of a major problem SINPF is able to recover data up to a year old.

It is also suggested to relocate the storage of the backup data to a location that is further away from the IT room to minimize the risk of losing the database server and the backup data in a single disastrous event. One of the possible data security strategies is as follows:

- daily backup located onsite but in a location further away from the IT room
- weekly backup offsite (close by for quick access and recovery)
- monthly backup offsite (away from the KPF office region)
- yearly backup offsite (outside the country that is not in the same region).

It is also recommended to secure the data backup media from fire and water damage where affordable and practical to mitigate the risk of fire and water damage.

It is also necessary to develop a disaster recovery plan to enable the organisation to recover and continue its business operations in the event of a major disaster (eg a serious earthquake).

19.4.11 Scanning technology

It is recommended that the use of scanners be investigated with a view to eliminating the need for paper files. Scanners are now available that scan at a reasonable speed, and are currently being used in conjunction with Document Management Systems by other Pacific Island provident funds. They are being used to scan all documents coming into and going out of the office; at the same time they are scanning the essential documents from current paper files.

19.4.12 Branch offices

Computers have been installed in the Branch Offices at Gizo and Aiku; however online access to the SINPF office in Suva was found to be too expensive to maintain. Current use is restricted to answering enquiries and the printing of member statements.

Consideration should also be given to using the computers for data entry of contributions data, and transporting the keyed data records to Suva via diskettes.

19.4.13 Use of the internet

Use of the internet for banking, payment of bills, viewing credit card statements etc using Personal Identification Numbers (PIN) is now common practice in many countries. The Internet facilities currently available would not allow SINPF to take advantage of these options in the short term – however at some future time SINPF could consider the issue of PIN numbers to members and employers on request to enable them to view their account balance and activities via the internet; this may

reduce the need for phone enquiries and printed member statements.

If employers could be encouraged to use the net for monthly lodgement of schedules and direct deposit banking for contribution payments, this would help reduce the public contact workload during the peak workload period at the end of the month.

The SINPF needs a good website, to provide access to forms, information, media releases, newsletters etc.

19.4.14 Computerised cheque printing

Cheques are currently written out manually using data extracted from the computer database. Consideration should be given to

computer generated/printed cheques which would minimise transcription errors, provide greater security by internal control, and improve productivity

19.4.15 Fingerprint scanning and matching

SINPF currently takes member thumbprints as part of the registration and withdrawals process, but has no method of checking the thumbprints. If serious fraud is suspected, the thumbprints need to be sent to Australia for matching.

It is recommended that the use of fingerprint scanning and matching technology to replace the current fingerprint ink system for members in the registration and withdrawal processes be investigated.

PART III

NATIONAL SOCIAL SECURITY ACTION PLAN

Chapter 20

National Social Security Action Plans

Chapter 20 National Social Security Action Plans

20.1 Objectives of the national action plan

The National Action Plan for Social Security (NAPSS) is a final output of the ILO Project – *Subregional Initiatives on Social Security for the Pacific Island Countries*. Over the course of the project, major gaps in social security coverage have been identified by the technical review of social security and by the surveys of the formal and informal economy workers. A series of feasibility studies have been conducted in major areas of social security. These feasibility studies have formulated options on the potential social security programs and strategies on how they can be introduced or extended in Solomon Islands.

The objective of the plan is to provide information for policy planners and stakeholders on key issues and feasible options to extend social security coverage in Solomon Islands and to propose steps to translate these policy directions into national actions. The NAPSS will serve as a basis to develop future project strategies and provide guidance in implementing the key priority programmes at the national level.

The NAPSS is built on all the project outputs. Inputs to the plan were also provided by key stakeholders in two workshops, an initial workshop conducted in April 2005 and a final workshop in September 2005. Additional inputs were provided during a number of group and individual meetings and discussions. The draft plan was presented at the round table discussion on social security held on 15 December 2005 in Suva, which provided an opportunity to share the findings and get feedback from high level government authorities and social security organizations.

20.2 The national action plan

The scope of the NAPSS covers the following six programme areas:

- Social health insurance,
- Social insurance pensions,
- Unemployment insurance,
- Social assistance,
- Workers' compensation, and
- Maternity protection.

Each part comprises an overview of the programme and describes its background, gaps, needs, policy, gender issues, target groups, indicators, resources and implementation. In conjunction with policy analysis overview, a road map of a typical implementation strategy is outlined in short- and long-term. A summary of action plan at the end describes all of the programmes in terms of the rationale and outcomes. For more detailed analysis of the particular program, reference should be made to respective feasibility study in Part II of this sourcebook.

20.3 The purpose of the NSSAP

The purpose of the plan is to provide sufficient information for local key decision makers and stakeholders on the potential social security programs identified over the course of the project and how they may be introduced or extended in Solomon Islands. The plan may therefore be seen as a suite of options that can be prioritised by the government for implementation to cover the gaps in social security programs in Solomon Islands. It is recognised that implementation of more than one program will be difficult, but the NSSAP and the supporting documents can be used as the basis for future consideration of social security development in Solomon Islands. Some programs will have a much greater lead time and particularly where substantial changes are required such as pensions reform.

The NSSAP will be used as the basis for discussion with government and key stakeholders in order to develop future project strategies to assist in the implementation of the key priority programs and as a guide to local steering committees and technical teams.

20.4 General implementation strategy

Although the action plan is organised by individual social security programmes, an integrated approach should be taken to ensure that the reforms are strategically driven and that the limited resources are appropriately allocated to the priority programmes. Therefore it is essential that a high level tripartite steering committee be established to coordinate the overall development of social security policy and programmes in

Solomon Islands. Core responsibilities of the tripartite steering committee are described as follows:

- Ensure the coordination of the policy development options and country priorities,
- Identify the appropriate institutions to implement social security programmes,
- Identify affordable and sustainable funding options,
- Monitor phased implementation of agreed priority programs, and
- Conduct publicity, promotion and awareness raising of social security throughout the implementation process. A strategic coordinating group is also essential to ensure that the limited and appropriate resources are allocated to the priority programs. The project management of implementation is intensive and highly skilled and it is most likely that specialist training of local teams will be required.

20.5 Conclusion: The way forward

Effective extension of social security requires strong long-term commitment and continuous efforts of the key stakeholders. It is important that the NAPSS is endorsed by Cabinet and recognised as a national priority.

The NAPSS identifies the key programmes for extension of social security in Solomon Islands. It should be noted that social security reform will require a sufficiently long lead time, possibly three or more years in some cases. In some instances, one social security organization may be involved in implementing multiple programmes. Given the long lead time and the limited capacity of the key agencies for developing and implementing programmes, the programmes must be prioritised so that only one or two programmes could be considered at one time. The plan can therefore be seen as a set of options that can be prioritised by the government for implementation to cover the gaps in social security programs in Solomon Islands.

It is recommended that **social health insurance** and **workers' compensation** programmes be the initial priority for implementation with the possibility of including **maternity protection** given its relatively simple benefit processing requirements. The other programmes must be considered medium to long-term goals.

The ILO would be prepared, subject to financial resources being available, to provide further technical assistance in implementing this action plan and to conduct capacity building and trainings for improvements in governance and administration.

SOLOMON ISLANDS		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Social Health Insurance		The Policy The government has proposed to split provision and financing by creating two independent boards. The proposed Health Financing Board would be instrumental in setting policy regarding health insurance. The initial stage of a social health insurance scheme would target formal sector (SINPF member) and their families. This would provide an additional and predictable flow of funds to the hospital and ensure budget sustainability. The cost of types of treatment covered could be either the responsibility of the scheme or the government or be shared by both. Subsequent expansion of the scheme could include ancillary benefits and provide voluntary or compulsory options for overseas treatment. The policy design should encourage the expansion and quality of health care services.	The Target Groups The initial target groups would be the formal employment sector workers and their dependents. A government funded social safety net should be considered for the poor/vulnerable. Other informal sector workers can be covered on a voluntary basis.	
The Situation Solomon Islands currently provides free primary, secondary and tertiary health services to all residents. Selected treatment in overseas locations is available. This is supported by expenditure of around 5 per cent of GDP on health care and less than 5 per cent of health care costs are out-of-pocket expenses.			Long Term Indicators Long term indicators could see a reduction of external-to-hospital births, reductions in the number of people deferring essential treatment due to high out-of-pocket expenses, particularly in remote areas. Quality indicators should improve with demand driven services instead of supply driven and the entry of private providers into health care management in Solomon Islands.	
The Needs Surveys conducted of both formal employment sector workers and workers in the informal economy rated health insurance as the highest priority social security need for themselves and their families.			Benefits of the Program The program would provide additional funding injected into the health care system (providing government expenditure continued at current proportions of GDP). This could result with improvement of range of services, retention of trained Solomon Island medical professionals and reduction in overseas treatments.	
The Gaps and Coverage The coverage of a compulsory social health insurance scheme for formal employment sector workers would be about 19,068 workers, based on 2004 SINPF membership. With around 6.3 dependents per household a total of 76,500 people or 30% of the population could be covered by the scheme.			Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to improve medical data collection and analysis, to assist in policy development of the insurance scheme and in the transition of hospital management from government to quasi autonomous agencies managed by boards. Other resources will include the establishment needs and this will depend on the institution chosen. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period.	
The Gender Issues Women have special health needs and most of these can only be satisfied by out-of-pocket expenses. This causes a substantial reduction in income of informal economy and single parent families. The longevity of women and their predominantly care taker role makes health care a major issue for women.		The Institution The SINPF is a logical institution to collect contributions and also to manage an insurance scheme with the least cost and development time. This is based on the current state of development of other government and para-statal agencies in Solomon Islands. Other options can be explored.		
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	Health Care Delivery Issues Health care professionals and hospital staff need to develop the statistical base to provide the information and costs on which future premiums and benefits of the scheme will be based.	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT for the scheme.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.

SOLOMON ISLANDS - SOCIAL HEALTH INSURANCE ROAD MAP

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SOLOMON ISLANDS		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Social Insurance Pensions		The Policy The initial stage of pension scheme policy development will involve decisions about the target level of monthly pension which a worker should receive after a full working career, and how to convert from the provident fund to a pension scheme. Given the important role that lump sum payments play in Pacific Island cultures, it may be desirable to pay a small lump sum at retirement in addition to a pension. Conditions for payment of pensions to disabled workers and survivors must also be settled. In view of the increasing longevity of Solomon Islands people, an appropriate retirement age must be set. Practical administrative arrangements for making periodic pension payments and serving workers and pensioners throughout Solomon Islands must be designed. Once the pension scheme for provident fund members is in place, the possibility of a universal pension scheme can be pursued.	The Target Groups The initial target groups would be the formal employment sector workers and their dependents and with improvements and would be same groups as the current provident fund members. The informal economy will need special provisions from either government funded contributions to the scheme or a universal pension scheme similar to Samoa and Kiribati.	
The Situation The Solomon Islands national provident fund provides the major retirement income for workers but only in the formal employment sector. Currently compulsory contributions of 12.5% (7.5% + 5%) of payroll are made on behalf of employees. Lump sum retirement benefits are paid at the retirement age of 50 years and on death, invalidity and migration. A special death benefit is also payable.			Long Term Indicators Long term indicators could see a reduction in disadvantaged age persons, homeless aged persons and improvements in aged care facilities. Other countries have identified an improvement in family ties when aged persons have some income and contribute to the family, instead of being seen as a burden.	
The Needs Surveys conducted of both formal employment sector workers and workers in the informal economy rated retirement income support as the second or third highest priority social security need.			Benefits of the Program The program will reduce dependence of aged people on their families and the government, and their spending from pensions from the fund can sustain local economies particularly in town and villages in remote islands. Replacing the lump sum with a lifelong pension will provide income security in old age where this is almost non existent now.	
The Gaps and Coverage The compulsory retirement contribution through the provident fund covers formal employment sector workers only; totalling around 19,068 workers. Around 77 per cent of workers have no retirement income coverage and rely on traditional means in old age.			Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to conduct initial actuarial studies and analysis, to assist in policy development of the insurance scheme and in the transition from a provident fund scheme to a social insurance pension. Other resources will include the establishment needs of the provident fund. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period. It is likely that the provident fund will continue to coexist alongside a pension scheme although not attracting any new members who will all be diverted to the new pension scheme.	
The Gender Issues In Solomon Islands around 65 per cent of the formal sector workforce is male and therefore women benefit much less from direct retirement benefits, although some benefits will occur through their role as spouses. However, as most retirement benefits are in the form of lump sums which are mostly spent in a few years, women will endure a longer period of old age with little or no retirement income due to their additional longevity over men.			The Institution The SINPF is a logical institution to collect contributions and also to manage pensions insurance scheme with the least cost and development time. This is based on the current state of development of other government and para-statal agencies in Solomon Islands.	
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop the options for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	Pension Delivery Issues Pension regular payments will require new initiatives to allow distribution of payments often in rural and remote areas as some pensioners retire to their home islands and villages.	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT for the scheme.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.

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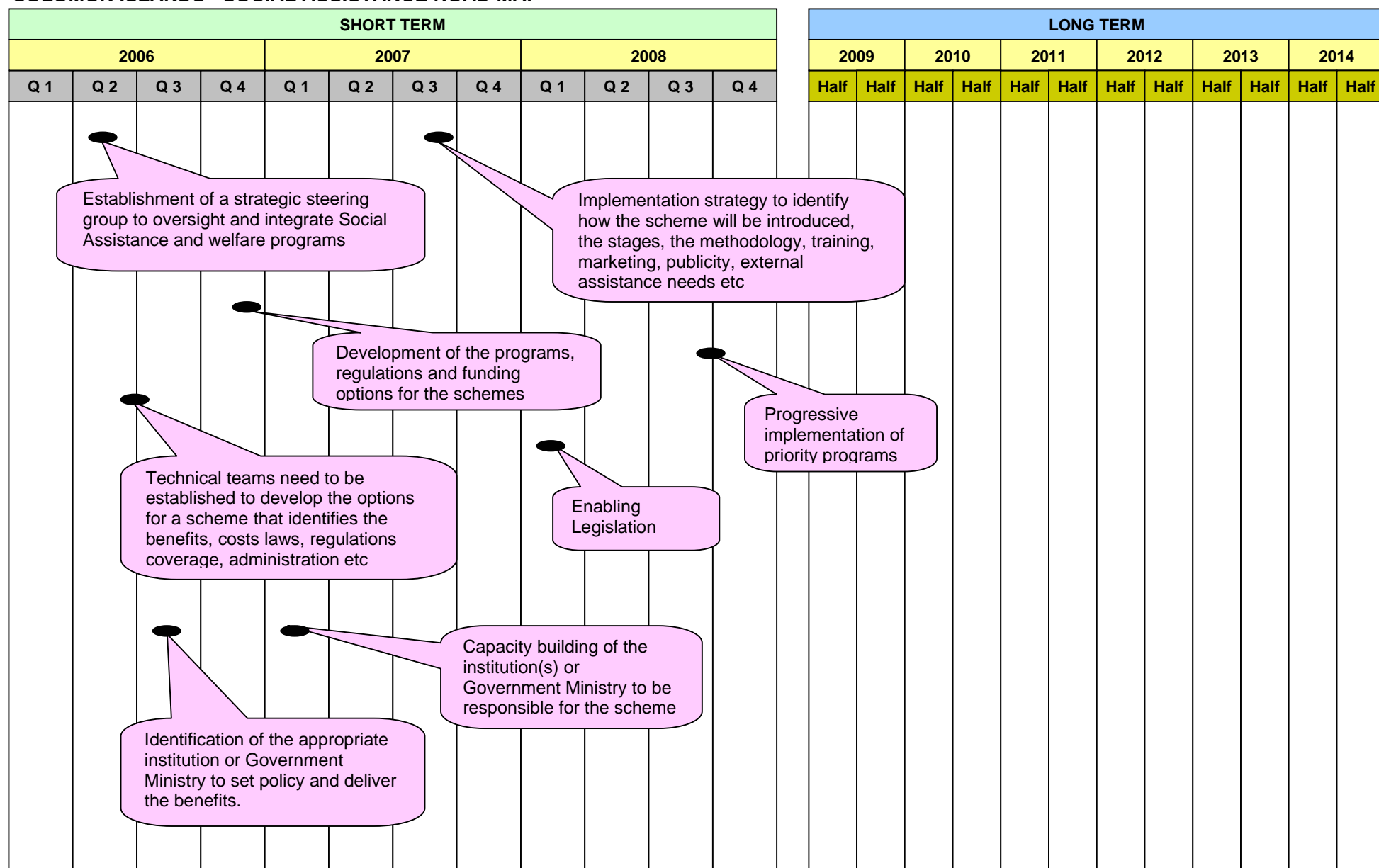
SOLOMON ISLANDS		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Unemployment Insurance		The Policy The initial stage of an unemployment insurance scheme could be based on providing short term income replacement for workers in the formal employment sector. The term and rate of payments in terms of percentage of replacement salary will determine the cost of the scheme. Other factors like waiting period, period of payment in any year and minimum membership period will also influence the potential cost of the scheme. The primary focus of unemployment insurance schemes is to place claimants in employment, and the range of active labour market programs must also be introduced alongside the benefit program. This usually involves the Ministry of Labour maintaining job seeker databases, vacancy notices and vocational training programs to get unemployed workers back into the workforce as quickly as possible.	The Target Groups The initial target groups would be the formal employment sector workers and their dependents. It is not feasible to include informal economy workers in an unemployment insurance scheme due to the difficulty in identifying employee/employer relationships, unemployment and a regular salary rate. Social assistance may be more appropriate for this group.	
The Situation There is currently no form of unemployment insurance available in Solomon Islands. The existing labour legislation provides provisions for redundancy and severance pay for laid off and dismissed workers.		The Institution The SINPF is a logical institution to collect contributions and also possibly to manage the benefits components of the scheme offering potentially the lowest cost and shortest development time. This is based on the current state of development of other government and para-statal agencies in Solomon Islands. The Ministry of Labour is the logical institution for the active labour market programs	Long Term Indicators Long term indicators could see a reduction of skilled workers migrating into the informal economy and disadvantaging lesser skilled and capable workers. It could also see a lessening of the economic downward spiral resulting from economic downturns, workplace closures and short term changes in the composition of the labour force.	
The Needs Surveys conducted of both formal employment sector workers and workers in the informal economy rated unemployment insurance as the priority social security need for themselves and their families. In the formal employment sector it rated second behind health insurance			Benefits of the Program The program would initially provide direct income replacement for laid off and dismissed workers and would maintain some local spending power through payments of benefits. The active programs would see improvements in the vocational training offered in Solomon Islands and better matching of employer needs against the job seekers.	
The Gaps and Coverage The coverage of a compulsory unemployment insurance scheme for formal employment sector workers would be about 19,068 workers. With around 6.3 dependents per household a total of 120,130 people or 29 per cent of the population could receive income maintenance from the scheme. However, taking into account the number of single workers in the formal employment sector, and the potentially lower members per household, this is the optimistic figure			Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to improve the institutional capacity of the benefits agency and to modify IT programs to include the contribution collection and regular benefits payment functions Other resources will include the institutional development of the Ministry of Labour to expand the vacancy notification for employers, the job seeker information and access and to enhance the vocational training centres and to focus them on the skills needs of employers. The funding issues for the Ministry of Labour will greatly influence the outcomes of the re-employment component of the program.	
The Gender Issues Women often take the brunt of reduction in household income and their special role in the nurturing of families is affected in times of unemployment by the partner. For single parent families unemployment usually means descent into poverty or reliance on family for survival.				
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Benefits Policy Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	Active Labour Market Measures The Ministry of Labour needs to develop the active labour market measures, job-seeker databases, vacancy reporting and notification processes, job/skills matching, and the vocational training programs.	Institutional Reform The selection of the appropriate institutions to manage the components of the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.

SOLOMON ISLANDS - UNEMPLOYMENT INSURANCE ROAD MAP

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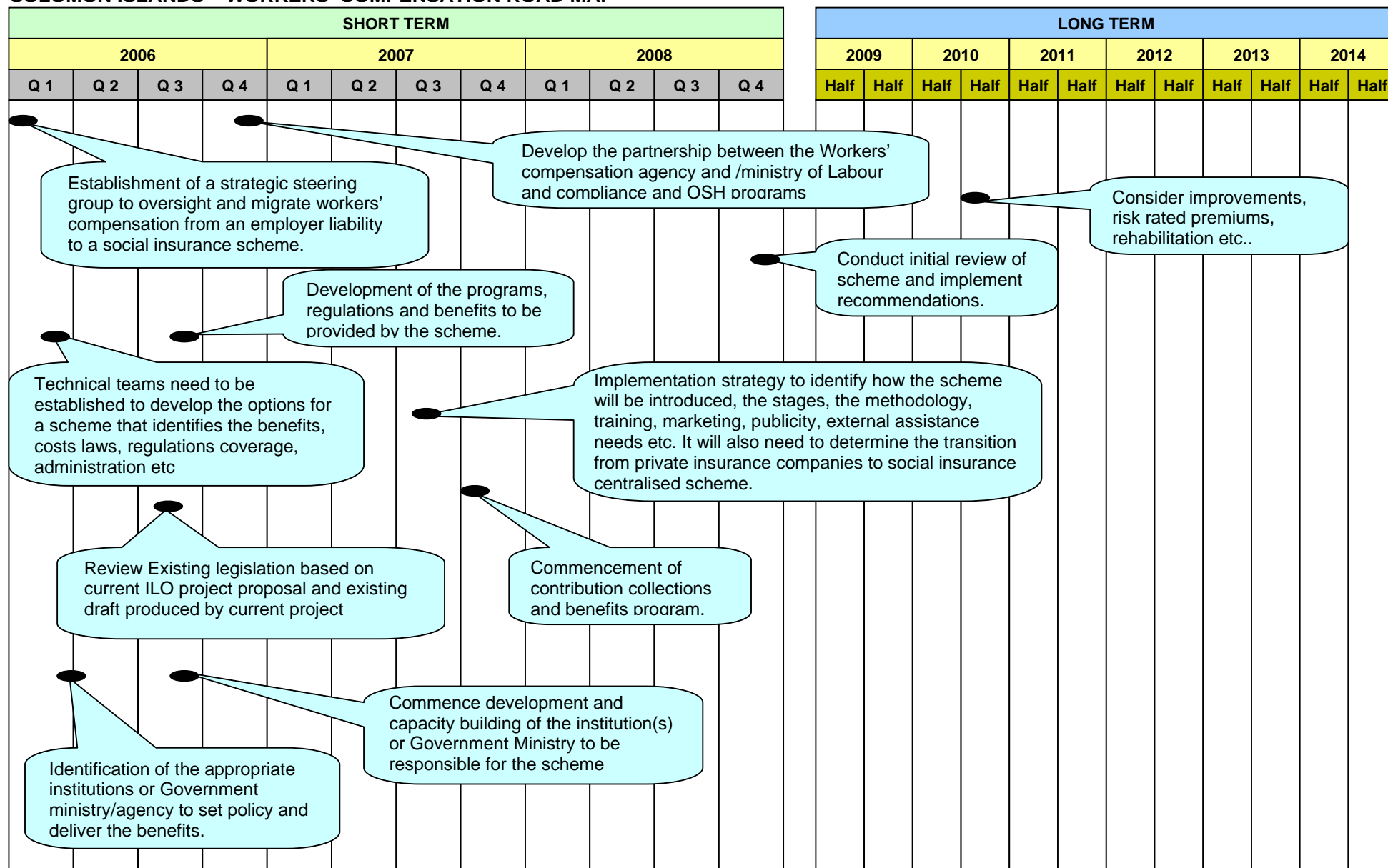
SOLOMON ISLANDS		SOCIAL SECURITY ACTION PLAN - OVERVIEW			
Social Assistance		The Policy		The Target Groups	
The Situation		The recipients of social assistance are the poor and disadvantaged and a range of categories and needy cases can be identified. Some of these categories include, poor families, sole parent families, homeless and land less people, disabled people, ex-prisoners and other people in need. The programs can provide cash assistance, in-kind assistance and subsidies or grants for special purposes. It can also provide special employment projects in local areas. The range of detailed policy needs to be determined based on the government and donor funding, local provincial funding and the needs in the community. The policy also needs to determine the degree of means testing and how it will be applied. The benefits rates need to be set to be able to alleviate poverty but also low enough not to inhibit individual enterprise and promote welfare dependence. The fraud control and prevention aspects need to be strong. The <i>Needs and Coverage</i> section shows the feasibility study recommendations.		The initial target groups could be low income families and individuals with special problems especially the elderly. Support to youth could be through education fee relief for children from poor families. The general community and can be assisted by an improved disaster relief program.	
The Needs and Coverage				Long Term Indicators	
The Gender Issues		The Institution		Benefits of the Program	
Despite equality under the law, in practice, Solomon Islands women are less likely to be in paid employment. In the traditional economy they tend to have fewer rights to use customary land and are often not included in decision making. They are also less likely to be able to access training in various types of skills. Women also tend to bear the brunt of adverse social changes, including marriage breakdown, sole parenthood, and domestic violence. There is no formal social safety net for most of these issues.		Given the almost total government funding of Social assistance a government Ministry is usually established to determine policy and deliver benefits. This organization will need to develop service delivery mechanisms, registration processes, fraud control and be strongly accountable for service provided.		The social assistance program will support the disadvantaged and poor members of Solomon Islands society where the traditional Wantok system has broken down or is unable to support all of its members. It will also mitigate against poverty, particularly for those who are unable to support themselves. By targetting youth and families it can also mitigate against social distress and disruption resulting from poverty.	
Resources					
The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to improve data collection and analysis of poor and vulnerable people and in the categories determined by the policy. Other resources will be needed to fund the eventual programs and assistance in determining the fiscal capacity and new sources of funding will be required. Other resources will include the establishment needs and this will depend on the institution chosen. Development of IT systems, for processing payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period.					
Implementation					
Reform Task Force	Policy Development	Benefits Delivery Issues	Institutional Reform	Implementation Strategy	
A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	The benefits programs are normally means tested and government funded. The type of benefits are usually for the poor and disadvantaged and special delivery methods are required for urban and rural areas	The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT.	This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.	

National Social Security Action Plans
SOLOMON ISLANDS - SOCIAL ASSISTANCE ROAD MAP



SOLOMON ISLANDS		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Workers' compensation		The Policy The concept of employer liability is somewhat dated and most countries now provide for a social insurance based workers' compensation scheme administered by a para-statal body governed by a tripartite board. Contributions are made solely by employers and placed in a fund. The contributions can be risk rated, or traditionally, by a fixed percentage of payroll for all workers. Benefit coverage should include income replacement for the period of the contingency and provide for full cost recovery for medical costs. Permanent incapacity should be covered by regular pensions throughout the period of contingency. This should be accompanied by a rehabilitation program to assist disabled workers to return to some form of constructive work. The scheme should be accompanied by an accident reducing strategy of OHS and active targeted campaigns to minimize injury.	The Target Groups The initial target groups would be the formal employment sector workers and their dependents. With improvements in active OSH measures and safety campaigns, some of the benefits may also flow onto workplaces not covered e.g. in the informal economy.	
The Situation Solomon Islands currently has an older style employer liability scheme for workers' compensation based on compulsory insurance for employers to cover their workers in private insurance companies. There is only one major insurer in Solomon Islands that is able to provide cover for workers' compensation.		Long Term Indicators Long term indicators could see a reduction in workplace accidents, minimization of the trauma associated with serious accidents and death and reduction in the associated health care and rehabilitation costs. A centralized scheme has better capacity to divert contributions into the worksafe and rehabilitation programs that the existing voluntary insurer based scheme.		
The Needs Surveys conducted of both formal employment sector workers and workers in the informal economy rated workers' compensation at around the middle level of their priority social security need for themselves and their families.		Benefits of the Program Apart from the health and rehabilitation aspects, the social insurance based workers' compensation program will better provide for disabled workers and offers the benefit of social solidarity. Insurance based schemes also eliminate the conflict that can arise between employers/employees and insurers and <i>not for profit</i> benefits can flow on to the beneficiaries.		
The Gaps and Coverage The existing coverage of the compulsory worker compensation scheme for formal employment sector workers is not totally clear and despite assurances from the regulator that information is available, the Ministry of Labour is unable to determine the extent of coverage/non-coverage of the workforce		Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to assist in policy development of the insurance scheme and in the transition of from private insurance to a regulated quasi autonomous tripartite board. Other resources will include the establishment needs and this will depend on the institution chosen. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution, if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period. The reporting mechanisms through management information will improve the current system and needs to be core element in the program. The link to OSH and funding are also essential resource considerations.		
The Gender Issues Whilst women represent only a third of the formal workforce and therefore covered by workers' compensation legislation they constitute an equal representation in the family makeup that is subject to the benefits of workers' compensation. In the absence of a workers' compensation social insurance scheme the survivors have limited coverage by lump sum.		The Institution The SINPF is a logical institution to collect contributions and also to manage an insurance scheme with the least cost and development time. However this is a major change in direction to the current core business of the SINPF. Other options like SIMIC need to be explored.		
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	Compensation Benefits Health care professionals and administrators need to develop the policy and the costs on which future premiums, benefits and rehabilitation components of the scheme will be based.	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT for the scheme.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.

SOLOMON ISLANDS – WORKERS’ COMPENSATION ROAD MAP



SOLOMON ISLANDS		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Maternity Protection		The Policy Maternity protection programmes have a range of objectives, including: <ul style="list-style-type: none">• Ensure that both mother and baby receive adequate medical care,• Cover at least part of the additional medical and other costs associated with pregnancy and childbirth,• Provide for a period of leave for a mother to move through the later stages of pregnancy and to recover from childbirth,• Permit mothers (and sometimes fathers) to withdraw from paid work for a period to look after the baby,• Provide income replacement for a period of withdrawal from the paid workforce,• Protect the employment of the women workers concerned, and ensure that the same job or an equivalent job can be resumed on return from maternity leave, and• Contribute towards greater gender equality for women workers. Most current maternity leave schemes provide for 12, or 14 weeks paid leave, usually for 6 weeks prior to delivery of the baby, and 6 to 8 weeks after. The costs may be borne by employers, the employees or other insured persons, or by the government. The minimum standard for leave pay is 66.6 per cent of salary in accordance with the minimum provisions of ILO convention No. 183.	The Target Groups The initial target groups would be the formal employment sector workers including the private sector workers. The beneficiaries will also include male workers especially those married with partners employed in the formal employment sector. Subsequent extension of coverage could consider support for women in the traditional and informal economy include some form of assistance towards health costs.	
The Situation Solomon Islands currently provides public sector employees with paid maternity leave for up to 12 weeks. Private sector employees are generally not provided with any maternity benefits nor are the traditional and informal economy workers. This means that around 90 per cent of the workforce is not covered by any maternity benefits.	Long Term Indicators Long term indicators could see retention of women in the formal sector workforce and an improvement in the gender statistics and employment of women in more senior positions. Maternity protection lessens the likelihood of women permanently leaving the workforce. Maternity protection and the medical and nutritional components should support a reduction in the high rates of maternal and infant mortality in Solomon Islands.			
The Needs Although the surveys did not rate maternity protection as highly as other benefit, possibly due to the gender bias in the sample. Other forums and workshops identified maternity protection as a high priority among women workers	Benefits of the Program Apart from the health and welfare aspects and benefits to the economy in general, maternity protection can improve the relationships between employers and employees by removing the potential conflicts and costs associated with employing women. The moderate contributions to maternity protection schemes in essence pre pays for maternity protection enabling the employer to cover the costs in employing temporary staff during the period of maternity leave.			
The Gaps and Coverage The existing gaps in maternity protection are large at around 90 per cent of the workforce having no entitlement to paid maternity leave. However medical costs are covered by the universal health scheme where there is negligible out of pocket expenses. The only workers with maternity protection are the public sector workers who represent around 76.7% of the formal workforce.	Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to assist in policy development of the insurance scheme. Other resources will include the establishment needs and this will depend on the institution chosen. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period. The costs of such a scheme are moderate and in Solomon Islands a contribution rate of around 0.40% of salary could provide 12 weeks paid maternity leave for workers in the formal employment sector. Increasing this to 0.45 % could cover 14 weeks paid leave in accordance with the minimum provisions of ILO convention No. 183, Maternity Protection.			
The Gender Issues Maternity protection in the form of maternity insurance, would support the employment of women in the formal economy and help to minimize some of the maternity discrimination of compulsory maternity leave. Many women appear to leave the workforce following childbirth which denies them equal participation and the benefits to the workforce and skills base.	The Institution The SINPF is a logical institution to collect contributions and also to manage an insurance scheme with the least cost and development time. However this is a major change in direction to the current core business of the SINPF. Other options need to be explored.			
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop the <i>options</i> for a scheme that identifies benefits, costs premiums, laws, regulations coverage, administration etc	Maternity Benefits Health staff and administrators need to develop the policy and the costs on which future premiums, and benefit components of the scheme are based.	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT for the scheme.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.

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PART IV

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Annex 1 Selected international experience in extension of social security

Country	Target Groups	Organisations and Roles	Services & Programs	Methods of Financing	Status
India	Informal economy – rural and urban self-employed and home workers - for women workers only	Self-employed Women's Association is a registered trade union that in addition to it labour force activities has an integrated social security program.	<ul style="list-style-type: none"> • Health insurance • Health care • Loans insurance • Life/disability Ins. • Labour market collective • Child care via co-ops 	<ul style="list-style-type: none"> • Premiums (¹/₃) • State subsidies and Insurance companies (¹/₃) • Other subsidies from GTZ (¹/₃) 	Variable payment premiums to suit different income groups. Aims to achieve administrative and financial sustainability. Attempts to emulate social security in the formal economy by using extensive government and NGO participation in the delivery of services.
	Informal economy – rural tribal workers in Tamil Nadu	Action for Community Organisation, Rehabilitation and Development	<ul style="list-style-type: none"> • Credit fund • Savings scheme • Health insurance • Composite social security, death, disability and property damage (in conjunction with an insurance company) 	<ul style="list-style-type: none"> • Premiums • Fees 	Main emphasis on the scheme was on participative and collective action. Despite the successful introduction of health care and social security schemes the insurance renewals proved to be a problem when the group is inactive. A proposed solution is to link insurance to a credit loan scheme.
Columbia	Informal economy – urban poor	The Andes Mutual Association is one of the entities authorised to operate within the Colombian social security system	<ul style="list-style-type: none"> • Provides primary, • Secondary and tertiary health care services 	<ul style="list-style-type: none"> • Premiums • Other subsidies and grants from co-financing with municipal authorities & from solidarity funds from employer/employee contributions 	Operating since 1999 and all of the beneficiaries are defined as living below the poverty line. Subscription not as high as other 175 funds in the national system. Management by an elected assembly with two year appointments
Philippines	Informal economy – workers on more formal contracts	Cooperative Life Mutual Benefit Services Association Inc Role is to develop cooperative banking and insurance services to coops.	<ul style="list-style-type: none"> • Health insurance • Loans protection Ins. • Life/disability Ins. • Pensions • Coop officers protection 	<ul style="list-style-type: none"> • Premiums • Life savings plan that can be withdrawn on death or retirement • Premiums for loans protection are aged based 	Mutual agreement on earnings allows investment of funds in the national cooperatives federation to lend money and provide guarantees to cooperatives. Regional centres can retain 40% of premiums collected and the remainder pooled at national level. This promotes local as well as national development of cooperatives.

Country	Target Groups	Organisations and Roles	Services & Programs	Methods of Financing	Status
	Informal economy – rural and urban	Social Health Insurance/Networking and Empowerment aims to build up the national health insurance scheme to support local self-help initiatives	<ul style="list-style-type: none"> • Health insurance • Health care 	<ul style="list-style-type: none"> • State and municipal subsidies to fund health cover for the poor 	The program intends to integrate all existing health insurance schemes for informal economy workers into one national scheme. Family is the basis for cover and not individual. Support from GTZ to develop services, administration and technology.
	Informal economy – workers on more formal contracts	Angono Credit and Development cooperative scheme targets small businesses for loan protection, mutual support and medical services.	<ul style="list-style-type: none"> • Capital loans to small business • Loan re-insurance • Life/disability. • Basic medical services • Pensions 	<ul style="list-style-type: none"> • Premiums • Fees 	Although the scheme is small and targeted at small business it is a viable micro-system that supports members with loans for business, housing repair, medical and education purposes.
Bangladesh	Informal economy – rural workers on casual piece-rate labour	Grameen Kalyan is a non-profit company that aims to promote health and preventative illness. It acts as a health care insurer & basic provider.	<ul style="list-style-type: none"> • Health insurance • Loans insurance • Life/disability Insurance 	<ul style="list-style-type: none"> • Fees • Subsidies provided through the Grameen Trust and profits from the full rate of service fees for non-poor 	The schemes are variable and have a range of prices for each scheme. Cost recovery is about 65% but increasing with membership encouraged through the associated Grameen Bank and its members.
Bolivia	Informal economy – urban poor and in some rural areas	Tomas Katari Polytechnic Institute has focus on education, production, organization and social activities.	<ul style="list-style-type: none"> • Basic health care 	<ul style="list-style-type: none"> • Premiums • Subsidies from non-state development agencies, donors and others. 	Due to its international subsidies it is not yet a sustainable micro-insurance scheme and current role is to expand access to health care services. Aims to gradually achieve sustainability.
South Africa	Informal economy – rural and urban	South African Old-age pensions is a non-contributory means tested benefit paid from general government revenue	<ul style="list-style-type: none"> • Periodical pension payment 	<ul style="list-style-type: none"> • State funded from general taxation revenues (non funded mandate to local provinces) until 1999 guaranteed by the national government 	All South African social assistance now administered through one agency, Dept of Welfare. Pension is an important payment to poor households, although leakage and fraud is about 10% of payments. Payments in rural areas is outsourced using security firm with mobile ATM's
Tanzania	Informal economy – urban	Mutual Society for Health Care in the Informal Sector is an insurance scheme sponsored by ILO. It is self-funding, provides choice between govt, private providers & infrastructure.	<ul style="list-style-type: none"> • Primary health care, • Secondary and tertiary care at government centres 	<ul style="list-style-type: none"> • Contribution by members at single rate or family rate 	Care options for the various groups in the scheme were capitation, case payment and enterprise clinic. Control methods were emphasised and clearance for medical treatment that had to be obtained from the group leader. To be replaced by photographed ID cards. The scheme has been successful & sustainable, is internally managed & funded. The risk has been minimised by combining groups into larger groups each of about 400 members.

Annex 2 Population by sex, province and ward

<i>Province/ward</i>	<i>Population</i>			<i>Province/ward</i>	<i>Population</i>		
	<i>Both sexes</i>	<i>Males</i>	<i>Females</i>		<i>Both sexes</i>	<i>Males</i>	<i>Females</i>
SOLOMON ISLANDS	409.042	211.381	197.661	Isabel Province (cont.)			
Choiseul Province	20.008	10.236	9.772	06. Tirotongana	560	267	293
01. Wagina	1.450	757	693	07. Koviloko	1.111	538	573
02. Katupika	1.258	650	608	08. Kmaga	1.397	684	713
03. Vasipuki	1.210	613	597	09. Kaloka	1.030	525	505
04. Viviru	1.274	636	638	10. Tatamba	1.196	606	590
05. Babatana	1.550	791	759	11. Sigana	1.767	885	882
06. Tepazaka	1.338	708	630	12. Japwana	1.658	837	821
07. Batava	3.576	1.893	1.683	13. Kolomola	749	359	390
08. Tavula	1.945	982	963	14. Kolotubi	1.442	699	743
09. Polo	1.348	685	663	15. Susubona	1.304	665	639
10. Bangera	912	436	476	16. Samasodu	1.049	540	509
11. Susuka	953	473	480	Central Province	21.577	11.193	10.384
12. Senga	1.524	754	770	01. Sandfly/Buenavista	2.623	1.318	1.305
13. Kerepangara	861	459	402	02. West Gela	1.861	949	912
14. Kirugela	809	399	410	03. East Gela	1.542	792	750
Western Province	62.739	33.190	29.549	04. Tulagi	1.333	800	533
01. Outer Shortlands	1.184	595	589	05. South West Gela	2.064	1.033	1.031
02. Inner Shortlands	2.338	1.208	1.130	06. South East Gela	1.295	665	630
03. Simbo	1.672	888	784	07. North East Gela	1.567	838	729
04. North Ranongga	412	202	210	08. North West Gela	1.375	669	706
05. Central Ranongga	2.053	1.011	1.042	09. Banika	1.987	1.059	928
06. South Ranongga	2.600	1.339	1.261	10. Pavuvu	1.587	826	761
07. Vomuni	2.568	1.332	1.236	11. Lovukol	1.794	958	836
08. Mbilua	2.788	1.430	1.358	12. North Savo	1.146	584	562
09. Ndovele	1.538	778	760	13. South Savo	1.403	702	701
10. Irringgila	2.280	1.184	1.096	Rennell-Bellona Province	2.377	1.230	1.147
11. Gizo	5.323	2.784	2.539	01. East Tenggano	279	130	149
12. East Kolombangara	4.064	2.278	1.786	02. West Tenggano	302	162	140
13. Vonavona	4.498	2.310	2.188	03. Lughu	249	133	116
14. Kusaghe	1.746	888	858	04. Kanava	220	123	97
15. Munda	2.428	1.294	1.134	05. Te Tau Gangoto	434	237	197
16. Nusa Roviana	1.710	849	861	06. Mugi Herna	136	73	63
17. Roviana Lagoon	3.599	1.958	1.641	07. Matangi	99	52	47
18. South Rendova	2.207	1.150	1.057	08. East Gaingau	225	106	119
19. North Rendova	1.500	800	700	09. West Gaingau	249	132	117
20. Kolombanghea	1.540	813	727	10. Sa'aiho	184	82	102
21. Mbuini Tusu	2.328	1.259	1.069	Guadalcanal Province	60.275	31.423	28.852
22. Nono	2.696	1.434	1.262	01. Tandai	5.970	3.272	2.698
23. Nggatokae	2.377	1.177	1.200	02. Saghalu	3.372	1.800	1.572
24. North Vangunu	2.251	1.211	1.040	03. Savulei	2.199	1.163	1.036
25. Noro	3.482	2.165	1.317	04. Tangarare	2.913	1.532	1.381
26. West Kolombangara	1.557	853	704	05. Wanderer Bay	2.880	1.486	1.394
Isabel Province	20.421	10.424	9.997	06. Duichui	3.163	1.631	1.532
01. Kia	1.560	858	702	07. Vatikulau	2.113	1.047	1.066
02. Baolo	746	406	340	08. Talise	2.014	991	1.023
03. Kokota	879	517	362	09. Avuavu	1.970	1.015	955
04. Hovikoilo	1.535	830	705	10. Moli	3.534	1.784	1.750
05. Buala	2.438	1.208	1.230	11. Tetekani	974	459	515

Annex 2 Population by sex, province and ward (cont)

<i>Province/ward</i>	<i>Population</i>			<i>Province/ward</i>	<i>Population</i>		
	<i>Both sexes</i>	<i>Males</i>	<i>Females</i>		<i>Both sexes</i>	<i>Males</i>	<i>Females</i>
Guadalcanal Province (cont.)				Makira-Ulawa Province (cont.)			
12. Birao	2.271	1.178	1.093	04. Ugi and Pio	1.223	610	613
13. Valasi	1.098	562	536	05. Arosi South	2.258	1.202	1.056
14. Kolokarako	1.232	650	582	06. Arosi West	1.400	713	687
15. Longgu	2.869	1.462	1.407	07. Arosi North	1.997	1.061	936
16. Aola	3.527	1.807	1.720	08. Arosi East	1.368	703	665
17. Paripao	2.584	1.316	1.268	09. Bauro West	2.695	1.421	1.274
18. East Tasimboko	4.832	2.523	2.309	10. Bauro Central	3.376	1.759	1.617
19. Vulolo	2.716	1.424	1.292	11. Bauro East	1.163	616	547
20. Malango	4.105	2.231	1.874	12. Wainoni West	1.398	712	686
21. West Ghaobata	2.601	1.361	1.240	13. Wainoni East	2.086	1.077	1.009
22. East Ghaobata	1.338	729	609	14. Star Harbour North	2.541	1.290	1.251
Malaita Province	122.620	61.209	61.411	15. Santa Anna	1.673	840	833
01. Auki	4.022	2.071	1.951	16. Santa Catalina	727	376	351
02. Aimela	6.747	3.395	3.352	17. Star Harbour South	719	373	346
03. Buma	5.389	2.774	2.615	18. Rawo	652	337	315
04. Fauabu	8.252	4.125	4.127	19. Weather Coast	1.220	635	585
05. West Baegu/Fataleka	2.541	1.301	1.240	20. Haunumu	1.696	874	822
06. Mandahia/Folotana	2.410	1.234	1.176	Temotu Province	18.912	9.146	9.766
07. Foondo/Gwaiau	4.140	2.054	2.086	01. Fenualoa	1.333	631	702
08. Malu'u	4.828	2.312	2.516	02. Polynesian Outer Island	297	122	175
09. Matakwalao	2.503	1.249	1.254	03. Nipua/Nopoli	589	271	318
10. Takwa	9.616	4.854	4.762	04. Lipe/Tennua	1.077	530	547
11. East Baegu	3.922	1.920	2.002	05. Manuopo	1.067	482	585
12. Fouenda	2.456	1.209	1.247	06. Nenunpo	1.121	524	597
13. Sulufou/Kwarande	1.603	782	821	07. Nevenema	998	484	514
14. Sububenu/Burianiassi	4.925	2.458	2.467	08. Luva Station	1.665	825	840
15. Nafinua	3.663	1.866	1.797	09. Graciosa Bay	1.089	552	537
16. Faumamam/Kwai	3.099	1.598	1.501	10. Nea/Noole	1.479	745	734
17. Gulalofou	4.676	2.340	2.336	11. North East Santa Cruz	1.665	835	830
18. Waneagu/Taelanuasina	3.598	1.766	1.832	12. Nanggu/Lord Howe	1.742	872	870
19. Aiaisi	2.922	1.461	1.461	13. Duff Islands	439	216	223
20. Areare	2.815	1.345	1.470	14. Utupua	848	418	430
21. Rarosu'u	4.081	1.962	2.119	15. Vanikoro	884	415	469
22. Aba/Asimeuru	4.349	2.161	2.188	16. Tikopia	1.346	623	723
23. Asimae	2.793	1.398	1.395	17. Neo	1.273	601	672
24. Mareho	2.254	1.111	1.143	Honiara	49.107	27.387	21.720
25. Tai	3.773	1.917	1.856	01. Nggossi	6.186	3.275	2.911
26. Kwarekwareo	1.623	786	837	02. Mbumburu	2.390	1.307	1.083
27. Siesie	2.888	1.426	1.462	03. Rove/Lengakiki	2.177	1.265	912
28. Waneagu Silma Sina	4.093	2.103	1.990	04. Cruz	268	181	87
29. Kwaimela/Radefasu	8.466	4.235	4.231	05. Vavaea	6.683	4.088	2.595
30. Langalanga	2.098	1.015	1.083	06. Vuhokesa	1.073	579	494
31. Luanua	1.307	615	692	07. Matanuko	2.898	1.592	1.306
32. Pelau	488	226	262	08. Kola'a	7.287	3.947	3.340
33. Silaiana	280	140	140	09. Kukun	1.969	1.070	899
Makira-Ulawa Province	31.006	15.943	15.063	10. Naha	877	531	346
01. North Ulawa	960	461	499	11. Vura	8.025	4.347	3.678
02. South Ulawa	1.057	489	568	12. Panatina	9.274	5.205	4.069
03. West Ulawa	797	394	403				

Annexes

Annex 3 Solomon Islands employment activity 1999

Economic Activity	Total	Choiseul Province	Western Province	Isabel Province	Central Province	Renbel Province	Guadalcanal	Malaita Province	Makira Province	Temotu Province	Honiara Province
Total 14+ yrs	249,168	11,742	38,407	12,381	13,167	1,462	36,385	70,537	18,697	11,637	34,753
Doing Paid Work	57,472	2,668	13,497	2,721	3,740	184	6,740	8,713	2,342	1,407	15,460
Fulltime	34,364	1,173	6,750	1,302	2,166	142	3,177	4,471	929	607	13,647
Parttime	23,108	1,495	6,747	1,419	1,574	42	3,563	4,242	1,413	800	1,813
Self employed	19,625	1,347	5,171	1,075	1,553	28	3,108	3,776	864	608	2,095
Waged	30,366	892	6,120	1,186	1,827	118	3,023	3,447	1,051	609	12,093
Family Help	2,403	203	756	88	91	5	212	461	128	67	392
Contract	3,507	141	1,050	249	180	28	222	756	216	73	592
Other	1,571	85	400	123	89	5	175	273	83	50	288
Not doing paid wrk	190,050	8,988	24,703	9,470	9,350	1,271	29,518	61,263	16,104	10,204	19,179
Doing unpaid wrk	52,301	2,376	5,781	3,560	3,338	341	9,259	18,085	6,579	2,460	522
Subsistence	40,085	1,639	3,438	2,490	2,621	268	7,392	14,929	5,176	1,983	149
Housework	860	42	209	84	24	10	73	197	122	90	9
Building	3,396	215	587	405	175	16	431	951	456	134	26
Crafts	47	-	21	2	1	1	-	14	2	-	6
Community serv	2,705	195	520	254	246	8	382	733	281	55	31
Other	5,208	285	1,006	325	271	38	981	1,261	542	198	301
Household duties	53,376	3,045	7,589	2,173	2,090	252	9,499	16,935	3,467	2,962	5,364
Retired	12,413	618	1,630	687	811	125	1,919	3,693	948	906	1,076
Student	32,853	1,502	4,748	1,657	1,717	187	3,690	8,761	2,910	1,576	6,105
Disabled	1,757	113	262	74	94	20	251	622	152	93	76
No wrk available	22,885	451	2,855	576	687	282	3,325	9,150	1,218	1,692	2,649
Other	14,465	883	1,838	743	613	64	1,575	4,017	830	515	3,387
Not stated paid wrk	1,646	86	207	190	77	7	127	561	251	26	114
Females 14+ yrs	121,194	5,822	17,878	6,139	6,336	702	17,446	36,613	9,200	6,245	14,813
Doing Paid Work	17,711	810	4,288	746	1,054	34	2,185	2,749	711	463	4,671
Fulltime	8,537	201	1,418	219	480	25	720	1,168	204	143	3,959
Parttime	9,174	609	2,870	527	574	9	1,465	1,581	507	320	712
Self employed	7,575	482	2,179	391	534	3	1,286	1,501	309	254	636
Waged	7,950	193	1,473	246	410	28	697	790	262	145	3,706
Family Help	1,238	94	414	41	47	1	111	250	54	34	192
Contract	424	20	98	21	34	2	40	103	42	9	55
Other	524	21	124	47	29	-	51	105	44	21	82
Not doing paid work	102,702	4,976	13,502	5,298	5,244	666	15,203	33,580	8,373	5,765	10,095
Doing unpaid wrk	24,580	1,058	2,499	1,758	1,697	169	3,832	9,287	2,909	1,151	220
Subsistence	20,533	882	1,725	1,428	1,436	135	3,209	8,235	2,437	972	74
Housework	536	22	152	48	16	8	40	124	66	58	2

Annex 3 Solomon Islands employment activity 1999 (continued)

Economic Activity	Total	Choiseul Province	Western Province	Isabel Province	Central Province	Renbel Province	Guadal-canal	Malaita Province	Makira Province	Temotu Province	Honiara Province
Building	161	7	19	9	5	-	8	66	26	19	2
Crafts	14	-	1	-	-	-	-	11	1	-	1
Community serv	863	53	124	103	105	4	116	250	74	23	11
Other	2,473	94	478	170	135	22	459	601	305	79	130
Household duties	46,025	2,487	6,575	1,984	1,970	237	7,551	14,431	3,098	2,668	5,024
Retired	6,044	327	812	350	399	59	933	1,810	455	462	437
Student	13,812	711	2,091	701	697	65	1,559	3,605	1,218	680	2,485
Disabled	725	45	105	33	36	13	104	255	62	40	32
No work available	6,227	93	766	148	200	101	739	2,629	305	548	698
Other	5,289	255	654	324	245	22	485	1,563	326	216	1,199
Not stated paid wrk	781	36	88	95	38	2	58	284	116	17	47
LABOR FORCE PARTICIPATION											
Total, 14+ yrs	249,168	11,742	38,407	12,381	13,167	1,462	36,385	70,537	18,697	11,637	34,753
Labour Force Participation¹	52.3%	47.7%	56.4%	54.5%	57.0%	53.3%	52.1%	49.3%	54.0%	46.8%	53.8%
In the labor force	130,267	5,599	21,658	6,747	7,510	779	18,944	34,779	10,105	5,448	18,698
Employed	109,773	5,044	19,278	6,281	7,078	525	15,999	26,798	8,921	3,867	15,982
Wage employment	30,366	892	6,120	1,186	1,827	118	3,023	3,447	1,051	609	12,093
Nonwage paid	27,106	1,776	7,377	1,535	1,913	66	3,717	5,266	1,291	798	3,367
Unpaid work	52,301	2,376	5,781	3,560	3,338	341	9,259	18,085	6,579	2,460	522
Unemployed	20,494	555	2,380	466	432	254	2,945	7,981	1,184	1,581	2,716
Not in labor force	118,901	6,143	16,749	5,634	5,657	683	17,441	35,758	8,592	6,189	16,055
Females, 14+ yrs	121,194	5,822	17,878	6,139	6,336	702	17,446	36,613	9,200	6,245	14,813
Labour Force Participation Rate	41.1%	36.3%	43.1%	43.6%	45.9%	45.6%	40.4%	40.7%	44.0%	37.0%	39.4%
In the labor force	49,866	2,111	7,701	2,677	2,906	320	7,044	14,907	4,047	2,312	5,841
Employed	42,291	1,868	6,787	2,504	2,751	203	6,017	12,036	3,620	1,614	4,891
Wage employment	7,950	193	1,473	246	410	28	697	790	262	145	3,706
Nonwage paid	9,761	617	2,815	500	644	6	1,488	1,959	449	318	965
Unpaid work	24,580	1,058	2,499	1,758	1,697	169	3,832	9,287	2,909	1,151	220
Unemployed	7,575	243	914	173	155	117	1,027	2,871	427	698	950
Not in labor force	71,328	3,711	10,177	3,462	3,430	382	10,402	21,706	5,153	3,933	8,972

Source: Solomon Islands 1999 National Population Census

¹ The rate shown is lower because > 65 year are included

Annex 4 Statements of contributions SINPF

Solomon Islands National Provident Fund
Statement of contributions
As at 30 June 2003

<i>Item</i>	2003 \$	2002 \$
<i>Opening Balance at 1 July</i>	310,611,755	327,993,448
<i>Prior year adjustments</i>	(176,628)	(158,244)
<i>Adjusted opening balance 1 July</i>	310,437,127	327,835,204
<i>Add: Contributions received during the year</i>	37,279,902	22,360,070
<i>Interest on members accounts</i>	6,833,507	8,225,018
Sub-total	354,550,536	358,420,292
<i>Less: Contribution withdrawals</i>	27,204,932	47,513,738
<i>Transfer to special Death Benefit (SBD) reserves</i>	338,736	336,799
<i>Transfer to general reserves</i>	0	373,076
<i>Contribution creditors</i>	14,815,845	12,923,427
<i>Increase in contribution creditors</i>	16,476,959	1,892,418
Sub-total	58,836,472	63,039,458
Sub-total	295,714,064	295,380,834
<i>Add: contribution creditors</i>	31,292,804	14,815,845
<i>Others</i>	134,362	415,076
Sub-total	327,141,230	310,611,755
<i>Represented by: Identified</i>	292,877,933	293,111,980
<i>Unidentified</i>	2,970,493	2,683,930
<i>Contribution creditors</i>	31,292,804	14,815,845
TOTAL	327,141,230	310,611,755

Source: SINPF September 2004.

Annex 5 Statements of income and expenditure SINPF

Solomon Islands National Provident Fund
Statement of income and expenditure
Year ended 30 June 2003

<i>Item</i>	2003 \$	2002 \$
<i>Investment Income</i>		
<i>Interest</i>	22,41,715	22,213,454
<i>Dividends</i>	890,362	902,411
<i>Rentals</i>	3,931,148	4,424,006
Adjusted opening balance 1 July	27,263,225	27,539,871
<i>Other Income</i>		
<i>Surcharges</i>	923,504	888,006,
<i>Sundry</i>	144,958	117,355
<i>Profit on sale of assets</i>	88,537	2,894
Sub-total	1,156,999	1,008,255
TOTAL INCOME	28,420,225	28,548,126
<i>Less: expenditure</i>		
<i>Operating Expenses</i>	17,781,533	15,486,923
<i>Members Expenses</i>	329,295	400,486
TOTAL EXPENDITURE	18,110,828	15,887,409
GROSS SURPLUS	10,309,535	12,660,717
<i>Less: Appropriation</i>		
<i>Interest credited to members</i>	6,833,507	8,225,018
NET ACCUMULATED SURPLUS	3,476,028	4,435,699

Source: SINPF September 2004.

Annex 6 Statements of assets and liabilities

Solomon Islands National Provident Fund

Statement of assets and liabilities

As at 30 June 2003

<i>Item</i>	2003 \$	2002 \$
Reserves		
<i>Revaluation reserve</i>		
Opening balance	2,112,464	2,112,464
Add: Revaluation during the year	0	0
Balance at 30 June	2,112,464	2,112,464
<i>General Reserves</i>		
Opening balance	38,507,566	33,960,197
Add: Transfers – unclaimed contributions	0	373,076
Prior year adjustments	810,137	(246,406)
Surplus for the year	3,476,028	4,435,699
Balance at 30 June	42,793,731	38,507,566
TOTAL RESERVES	44,906,195	40,620,030
Assets		
Cash	5,089,497	3,935,763
Receivables		
Interests	11,213,105	2,575,230
Rentals	4,716,151	3,240,380
Dividends withholding tax	6,151,862	5,189,789
Surcharges	3,949,761	3,162,910
Others	372,299	586,375
Sub-total	26,403,178	14,754,684
Less: Provision for doubtful debts	3,747,000	400,000
Current assets receivables	22,656,178	14,354,684
Investments		
Term deposits	32,800,000	25,300,000
Loans current portion:		
Quasi government	2,368,398	0
Provincial govt	899,135	0
Members' schemes	4,884,742	0
Staff schemes	511,295	0
Sub-total	8,663,570	0
Total investments	41,463,570	25,300,000
Accrued Interests	1,661,124	2,188,079
Sub-total	70,870,369	45,778,526
Non-current assets		
Investments	285,676,262	290,779,910
Property, plant and equipment	19,467,215	18,691,273
Sub-total	305,143,477	309,471,183
TOTAL ASSETS	376,013,846	355,249,709
Current Liabilities		
Creditors	258,568	273,334
Accruals and Provisions	1,594,341	1,804,459
Sub-total	1,852,909	2,077,793
Non-current Liabilities		
Special death benefit	2,113,512	1,940,131
Members contribution	327,141,230	310,611,755
Sub-total	329,254,742	312,551,886
TOTAL LIABILITIES	331,107,651	314,629,679
NET ASSETS	44,906,195	40,620,030

Source: SINPF September 2004

Annex 7 Non – current assets – investments SINPF

Solomon Islands National Provident Fund
Non-current assets and investments
For the year ended 30 June 2003

<i>Item</i>	2003 \$	2002 \$
<i>Rental Land and Buildings – at cost</i>	26,376,383	26,139,085
<i>At directors Valuation 1988</i>	580,000	580,000
Sub-total	26,956,383	26,719,085
<i>Less: Accumulated depreciation</i>	6,453,080	5,874,280
<i>Net book Value</i>	20,503,303	20,874,280
<i>Shares</i>	66,370,462	66,370,462
<i>Government securities</i>	94,271,053	94,271,053
Sub-total	160,641,515	160,641,515
<i>Loans: Solomon Islands government</i>	44,999,538	43,838,980
<i>Quasi government</i>	17,083,574	15,598,402
<i>Provincial governments</i>	43,962,677	49,613,089
<i>Members' schemes</i>	4,601,655	5,213,644
Sub-total	110,674,444	114,264,115
<i>Less: Provision for doubtful debts (rental)</i>	6,110,000	5,000,000
Sub-total	104,531,444	109,264,115
TOTAL	285,676,262	290,779,910

Source: SINPF September 2004.

Amounts due by Solomon Islands government

Arrears and debts owing by the SI government to the fund in loan repayments, contributions, surcharges, securities and rentals for the fiscal year 2003 total SBD 148.6 million (SBD 85.0 million in 2002). No provisions were made in the accounts for the debts because the government is expected to settle its debts fully in due course.

Amounts owed by statutory authorities

Some government statutory authorities and corporations have not been able to meet their repayments and as at 30 June 2003 the amount outstanding in arrears was SBD 27.6 million (SBD22.5 million in 2002). No provision has been made in h accounts for non-recovery of he above amounts.

Annex 8 Solomon Islands informal economy survey

Version 25 September 2004

Administration notes for Data Collectors

The purpose of this survey is to provide initial mapping on the social security situation for informal and rural people. It aims to get a broad view of their current social security needs and views and their capacity or willingness to contribute to a scheme.

You should anticipate a limited understanding of social security by the respondents and you may have to spend a few minutes at the outset to set the scene with basic information. The suggested minimum briefing is shown below. This briefing should be supplemented with the additional information provided by your coordinator.

Your contact person	Name:	Ms. Ruth Fugui	Tel:	(677) 30469
	Address:	Solomon Islands National Provident Fund	Fax:	(677) 30075
		PO Box 619, Honiara, Solomon Islands	Mob:	(677) 94138

The ILO wishes to thank you for your assistance in completing this survey.

Suggested minimum briefing to participants

Thank you for agreeing to participate in this survey

The purpose of the survey is to collect information that will be used to make proposals to the government on how it could be possible to extend social security entitlements to people in the community. This survey is anonymous and **no records of your personal information** that could identify you will be taken. The data will only be used by ILO in the form of statistics.

What is social security?

Social security is a system where people can be insured against life events that result in loss or restriction in their income. This means that people make regular contributions to a fund and if they lose their income for a variety of reasons then they can receive payments or services from the fund. These programs aim to provide income support and other assistance to people in times of need. The types of life events that are usually covered for are:

- **Unemployment** – workers who are insured can receive some part of their previous salary for a limited period if they are laid off work through no fault of their own,
- **Maternity** – payments are made to insured female workers for part of the period they are off work before and after childbirth and also for medical treatment,
- **Illness and invalidity** – insured workers can receive part of their salary if they are temporarily sick and unable to work or receive longer term payments should they be unable to work again.,
- **Accident or death** – insured workers receive income and medical expenses if they have a work related accident and their families receive a lump sum payment in the event of their death,
- **Widows and sole parents** – can receive payments subject to being the partner of an insured worker or if their insurance premiums are covered by the government, and
- **Age** – where retired workers who have made a certain level of contribution to the fund can receive a regular pension payment to support them in old age.

Other types of support can be provided to assist in education, housing and to raise children. ***People who have paid their insurance*** can receive a certain level of assistance that has been determined by the administrators of the program. In most countries this is funded by small regular contributions from individuals, by employers and in some cases by the government. The funds are usually kept in trust for all of the contributors and the investment earned from the funds helps to improve the level of benefits people can receive. The principle is very much like the Solomon Islands National Provident Fund but a social security scheme can provide a wider range of benefits than the SINPF does at the moment.

Your help will be invaluable in the aim to provide social security benefits to everyone.

John Angelini

Chief Technical Adviser

Mobile (679) 990 6665

Notes

1. Personal Information Age <input style="width: 40px;" type="text"/> Married <input type="checkbox"/> Single <input type="checkbox"/> # of Dependents <input style="width: 40px;" type="text"/> Sex M <input type="checkbox"/> F <input type="checkbox"/>	2. Education None <input type="checkbox"/> Primary <input type="checkbox"/> Secondary <input type="checkbox"/> Tertiary <input type="checkbox"/> Trade <input type="checkbox"/>	3. Farmers/Fisherman Do you own your land/boat? Yes / No Status of land ownership Freehold <input type="checkbox"/> Traditional <input type="checkbox"/> Leased <input type="checkbox"/> Squatter <input type="checkbox"/> How much lease do you pay? SBD <input style="width: 60px;" type="text"/>	4. Crops Grown Ignore for fishermen Copra <input type="checkbox"/> Cocoa <input type="checkbox"/> Bananas <input type="checkbox"/> Palm oil <input type="checkbox"/> Vegetables <input type="checkbox"/>
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5. Employment Status Self Employed <input type="checkbox"/> Regular Employee <input type="checkbox"/> Casual worker <input type="checkbox"/> Unpaid worker <input type="checkbox"/> Employer <input type="checkbox"/> No. Employees <input type="checkbox"/>	6. Occupation Fisherman <input type="checkbox"/> Farmer <input type="checkbox"/> Home worker <input type="checkbox"/> Retail/market <input type="checkbox"/> Other <input type="checkbox"/>	7. Do you have insurance on crops/boats? Yes <input type="checkbox"/> No <input type="checkbox"/>	8. Do you have other micro insurance? Yes <input type="checkbox"/> No <input type="checkbox"/>	9. Why no Insurance cover or micro insurance? Not available here <input type="checkbox"/> Unable to get cover (risk) <input type="checkbox"/> Benefits not high enough <input type="checkbox"/> Unable to afford premium <input type="checkbox"/>
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10. Income Pattern How do you sell produce? Market <input type="checkbox"/> Own Use <input type="checkbox"/> Cooperative <input type="checkbox"/> Contract <input type="checkbox"/> Direct sale <input type="checkbox"/> Barter <input type="checkbox"/> % of Income is cash (rest goods & food)? 100 <input type="checkbox"/> 80 <input type="checkbox"/> 60 <input type="checkbox"/> 40 <input type="checkbox"/> 20 <input type="checkbox"/> <20 <input type="checkbox"/>	11. Which months do you earn most income? January <input type="checkbox"/> July <input type="checkbox"/> February <input type="checkbox"/> August <input type="checkbox"/> March <input type="checkbox"/> September <input type="checkbox"/> April <input type="checkbox"/> October <input type="checkbox"/> May <input type="checkbox"/> November <input type="checkbox"/> June <input type="checkbox"/> December <input type="checkbox"/>	12. Which months do you earn No income? January <input type="checkbox"/> July <input type="checkbox"/> February <input type="checkbox"/> August <input type="checkbox"/> March <input type="checkbox"/> September <input type="checkbox"/> April <input type="checkbox"/> October <input type="checkbox"/> May <input type="checkbox"/> November <input type="checkbox"/> June <input type="checkbox"/> December <input type="checkbox"/>
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13. Do you receive regular income? Yes / No	14. How do you pay costs then? Gift from Family <input type="checkbox"/> Use personal savings <input type="checkbox"/> Sell some assets or goods <input type="checkbox"/> Borrow money <input type="checkbox"/> Assistance govt/NGO <input type="checkbox"/> Accumulate debts or favours <input type="checkbox"/>	15. Annual Income – Self > SBD.20,000 <input type="checkbox"/> SBD..15,001 – <input type="checkbox"/> SBD.10,001 – SBD.15,000 <input type="checkbox"/> SBD.5,001 – SBD.10,000 <input type="checkbox"/> < SBD. 5,000 <input type="checkbox"/>	16. Annual Income – Household > SBD.20,000 <input type="checkbox"/> SBD..15,001 – <input type="checkbox"/> SBD.10,001 – SBD.15,000 <input type="checkbox"/> SBD.5,001 – SBD.10,000 <input type="checkbox"/> < SBD. 5,000 <input type="checkbox"/>
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17. Are you a member of a Social Security program? Work Injury <input type="checkbox"/> Health Insurance <input type="checkbox"/> Maternity <input type="checkbox"/> Aged/Retirement <input type="checkbox"/> Death/Life Insurance <input type="checkbox"/> Unemployment <input type="checkbox"/> Housing <input type="checkbox"/> Education Plan <input type="checkbox"/> NONE <input type="checkbox"/>	18. What Social Security programs would do you need? Work Injury <input type="checkbox"/> Health Insurance <input type="checkbox"/> Maternity <input type="checkbox"/> Aged/Retirement <input type="checkbox"/> Death/Life Insurance <input type="checkbox"/> Unemployment <input type="checkbox"/> Housing <input type="checkbox"/> Education Plan <input type="checkbox"/>	19. What is your priority order Social Security program? Work Injury <input type="checkbox"/> Health Insurance <input type="checkbox"/> Maternity <input type="checkbox"/> Aged/Retirement <input type="checkbox"/> Death/Life Insurance <input type="checkbox"/> Unemployment <input type="checkbox"/> Housing <input type="checkbox"/> Education Plan <input type="checkbox"/>
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Mark as a number 1 to 8.
 # 1 top priority

20. Would you contribute to Social Insurance?Yes ☐ No ☐ Maybe ☐**22. Who should contribute for your Social Security?**

Individual (self)	<input type="checkbox"/>	Local community	<input type="checkbox"/>
Employer	<input type="checkbox"/>	Shared by all	<input type="checkbox"/>
Employer & Employee	<input type="checkbox"/>	Don't know	<input type="checkbox"/>
National Government	<input type="checkbox"/>	Other	<input type="checkbox"/>

21. Reason for not wishing to contribute?

No need – happy with family arrangements ☐

Cannot afford to contribute ☐

Benefits paid by schemes too low ☐

Don't trust administrators of schemes ☐

Don't provide services I need ☐

Not allowed or eligible to contribute ☐

Need more information to decide ☐

23. Without social security, who will look after you when you are unemployed, injured, sick, aged, etc?

Self ☐

Savings ☐

Family (children) ☐

Government ☐

NGO/Church ☐

No one ☐

24. How much (per month) could you pay for Social Security?

> SBD. 800 ☐

SBD. 601 – SBD. ☐

SBD. 401 – SBD. ☐

SBD. 201 – SBD. ☐

< SBD. ☐

Could not afford to pay ☐

25. Do you have other micro loans?

Yes ☐

No ☐

26. Why no Micro loans?

Not available here ☐

Unable to get loan (collateral) ☐

Repayments too high ☐

Capital not high enough ☐

Unable to afford deposit ☐

Don't want to borrow money ☐

27. Membership of Organizations

Rural cooperative ☐

Micro Insurance ☐

Provident Fund ☐

Health Insurance ☐

Youth or Church ☐

Credit Union ☐

Other ☐

*This question to be completed by the Data collector***28. Demographic Information**Name of town/village/location **Predominant enterprise in the area**

Fishing	<input type="checkbox"/>	Subsistence farming	<input type="checkbox"/>
Services	<input type="checkbox"/>	Plantation	<input type="checkbox"/>
Mixed farming	<input type="checkbox"/>	Retail, market centre	<input type="checkbox"/>

Remote location Yes ☐ No ☐Built-up area Yes ☐ No ☐Approx size of local community (people) Approx distance to nearest large town Kms HoursInterviewer

Date / / 2004

Other comments or Feedback.

Instructions to data collectors

These instructors are intended to expand on the questions and to provide guidance on the meaning of the questions, their purpose and the rationale behind the reason for seeking the information. All enquiries should be directed to the survey supervisor and the details shown on page 1.

In the event that a question proves to provide inconclusive answers or the data not valid because of difficulties in estimations then the question may not be used in the analysis, however data collectors should endeavour to estimate as accurately as possible the responses from the person being interviewed.

It is important that you do not create an impression in the mind of the respondent that social security is going to happen!! At all times you should stress that this is a survey and these questions are only about what is possible not probable.

1. This question is basic person data, although the number of dependents could pose a problem to some people about whether dependents are children only or other dependents like parents etc. All dependents in the household should be included.
2. Education is the highest level of education achieved by the respondent.
3. This question is intended to identify the type of land tenure the respondent has. Lease is in SBD per month, it is clearly applicable to most villagers who will in some way or other be linked to the land or sea for livelihood although traditional owners will probably not pay for lease of land.
4. This question may assist in determining the capacity to earn money from cash crops or whether the crops are for subsistence. Whilst it is accepted that most families will have a vegetable garden others may grow cash crops as well.
5. The employment status seeks to identify broad occupation status only and the last question identifies whether the person is an employer and if so, how many employees he has. This may establish that an employer/employee relationship exists and together with income the potential for compulsory contribution to the provident fund.
6. Whilst there are a number of possibilities the most likely are in these areas for informal economy workers, once again the link to land or sea may be inferred from the data. It is likely that some people may be subsistence workers on both fishing and farming and response 3 fish/farmer would be the most appropriate.
7. Insurance on crop or boats is probably unlikely but it is essential that the question is asked.
8. Other micro-insurance may include village loans for welfare related purposes like death benefit programs, health care etc. This is different to micro loans used for development, machinery and other purposes. This is asked in Q 26.
9. The four most likely reasons for not having insurance are provided here and the respondents may identify with more than one but obviously if micro insurance is not available in the area then the first option is correct and the others irrelevant. The last 3 choices only apply if micro insurance is available in the area.
10. Income pattern has a number of choices which could be multiple, you should try to identify which is the greatest value and mark that. i.e. if own use and market are both options then you need to select the one which represents the greatest value. The second part, per cent of income in cash is the most difficult but respondents need to be able to apply a value to their in-kind consumption. You should not get too hung up on an answer as this is a very subjective answer but if a value can be stated by the respondent then using the local typical mean income may be used to best guess the per cent of income in cash.

11. and 12 For subsistence farmers they may identify all months where they get most income so you should check all months, although it is most likely that some months are going to be more difficult than others. This response could identify the periods where people may need most assistance or in conjunction with Q12 could indicate when contributions could most likely be made.
12. This follows on from Q12 to identify the regularity of income; and
13. You should try to select the most frequent option of the options presented. This will assist in the identification of the local community options and by the frequency of answers how strong they are.
14. The annual income of the individual may present some problems particularly where the income is not all cash. Therefore the answers derived in Q10 about income patterns may assist with this response also. Once again this question is likely to be a best guess particularly for subsistence farmers.
15. This is the household income and not the extended family. You need to try to get an estimate of the income about other members of the family if known by the respondent.
16. Whilst the responses appear technical you can use simplified versions for the respondent, by phrasing the question in terms of benefits for “loss of job”, “support payments if you are sick” instead of unemployment benefit or sickness benefit.
17. The discussion in Q18 also applies to this question.
18. The priority is the final in this trio of questions and we are trying to find out here what the person feels are the most important needs for their own situation. You may not go right down the list as some people may only consider two or three important. However it would be useful if they could rate as many as possible.
19. This question needs to be explained carefully so the respondent understands what social insurance means. We need to explain the principle that if they contributed a regular amount to the scheme then they are current members and if one of the events they are insured for (e.g. sickness) occurs then they can be paid the benefit in accordance with the terms of the scheme. If they answer no then you need to go to Q22. If they answer yes go to Q 23.
20. This question is only relevant for those who indicated in Q21 that they would not be prepared to contribute to a social insurance scheme.
21. This provides options for respondents to indicate who should be responsible for their personal social security, i.e. who should be pay for their benefits as opposed to who should deliver the benefits. The purpose of this question is to find out who they think should fund the schemes that will provide their social security benefits.
22. In this question we need to try to find out who provides for their benefits now and who will look after them in the event of the typical loss of income events like unemployment, sickness, invalidity, age etc
23. This is a hypothetical in that we need to suggest that in spite of what has been said up to date if they had to pay for their social insurance, how much could they or would they afford to pay. You may well have to suggest that they would not have to decide this until a range of services was available. We need to ask them to assume that there were a range of services available and no one else was going to pay for them.
24. This is about micro loans, not micro insurance, for savings for any purpose and not loans for social security. Micro loans might be for development, crop improvement, housing, personal reasons etc.

25. Once again this question is for those who answer no to the previous Q. Here we are trying to find out why they don't have a micro loan, of course if they identify with the first option "no loans available here" then that is obviously the prime answer.
26. Membership of organisations may assist in the consideration of providing micro-insurance/loans where group based membership and collections have proven to be the most successful.
27. This question is for data collectors to complete to provide us with some demographic and physical characteristics of the area in which the respondent lives.

Annex 9 Political organizations & social structures

Extracted and abridged from a background paper prepared for the UN Solomon Islands Human Development Report 2002, and produced in December 2001 by TONY HOU

Political organizations & social structures- Big man & chiefly system

Solomon Islands practices both achieved (big man) and ascribe a (chiefdom) system of leadership. In both systems, the authority is vested in the hands of male. In other words, Solomon Islands is a predominantly male society. This however, this does not necessarily mean that women are not considered in the social, economic and political affairs of the country. Women have their own clearly defined roles that are embodied in the culture.

The big man system

For those who practice the *big man* system of governance, it is assumed that individual men in a given age category have equal chances to achieve authority. Here, political power is achieved through one's own personal ambitions with the support from his kinsmen and women. The most important men are 'men with a name' and who attracted followers and wield influence because they possess qualities that their fellowmen and women admire. Sahlin (1970) for instance, observed that public action is designed to make a competitive and invidious comparison among others to show who stood above the masses. Here, a leader does not succeed to, nor is he installed in, existing positions of leadership over political groups. The attainment of authority is rather the outcome of a series of acts that elevate a person above the common herd, hence attract him a coterie of loyal men and women. Therefore, it is not correct to speak of 'big man' as a political title. Rather, it is an acknowledgement standing in interpersonal relations, a 'prince among men' (Sahlin 1970). In Solomon Islands, this can be phrased as a 'man of importance', a 'man of renown' or a 'real man' with dignity.

The basis of being a leader or big man is not something to be taken for granted. Ideally, for someone to be recognized as a big man, he must uphold beside respect for seniority, a sense of humility and the ability to lead people. Sahlin (1970) and Valentine (1970) further acknowledges that to be a big man, one has to possess certain qualities such as access to economic wealth, religious power or magic, a great warrior and hunter, master of oratory and matured. I would add here, trustworthy, caring and kindness, patient, loving and friendly, generous and honest (Hou 1998a: 12). As Horowai (personal interview) puts it "leadership stems not from power but from influence and admired personal qualities".

In short, the general pattern is that there were no hereditary or political authorities, nor ranks and status. It was largely open to any man to advance himself socially, economically, by his own sweat with the support from his relatives and kinsmen and women. This is fitting and proper, as it will justify who should

become a big man over a number of lineage and clans. Socially, it implies the division of the tribe into political *in-groups* dominated by outstanding personalities. The dominant factor here is qualities.

The chiefly system

The formal authority of chiefly societies is permanent so are its political institutions. The position of the chief is hereditary through the senior male and bestows high status and respect on its holder. The chief and his family often have greater access to privileges such as a live pigs during traditional feasts.

The position of the chief is seen as symbolic in nature. Hence, the role of the chief is mainly to ensure that there is stability amongst his people. There are times when he must also co-ordinate various social activities such as feasting and directing security activities. The daily economic production however, rests entirely on individual and extended families. It must be pointed out here that the chief also works to sustain his own family needs.

The Solomon Islands traditional political groupings were generally small and localized. Its level of operations determined the nature and size of the grouping involved. For instance, at the lineage level, the most senior male would be considered as the head while in a family, the husband has the authority. This implies that there is an existing traditional political structure (which employed either the big man or chiefdom system of governance). Such a traditional political structure is divided into four units. They are tribal, clan, lineage and family. Each of these political units will be discussed below beginning with tribal groups.

The tribal set up

In a tribal set up, population density is generally bigger, with a number of leaders representing different political units. In other words, a tribal group consists of a number of clans and lineage integrated to form a larger political unit (Sahlin 1970). This multi-local political integration is permanent and is headed by the most senior chief among different clans.

The clan

Each clan comprises of a number of named exogamous patrilineal lineages. These clans are local groups, in the sense that most of the male members of a particular clan live in the same locality. Each clan is a corporate unit in relation to other clans within the same tribe. Most of the members of a given clan tend to live in their lineage land within their clan's land territory. Residence is normally patri-virilocal, so that after marriage a woman lives with her husband's clansmen and women. Members of the same clan often consider themselves as being 'one people' or

'one base' despite that the founding ancestor is not known. Objectively, it is usually impossible to construct a precise genealogy for the clan. However, its members believe that it can be done by anyone who possesses the necessary knowledge.

Like tribal organization, clan unity is expressed in the ideal that members of the group should succour and support each other and compose their differences without resorting to violence or force. The clan has common interests in land, in the marriage of any of its women, and they expect assistance from each in a wide range of social, economic and political activities. Examples of these activities include death, gardening, warfare, dispute resolution, building chief's house and marriage. Politically, a chief (the most senior male within their clan) heads each clan, which constitute a number of lesser segments, known as lineage.

The lineage

The lineage consists of a small group of men, women and children who are descended from a common and known ancestor. Here, it is possible to construct a precise genealogy unlike in the clan and tribal units. Members of the same lineage regard each one as 'true' relatives and they refer to themselves 'one house', 'one vine', 'one people' and 'one root'. The most senior male within their group heads each lineage. He is also seen as the custodian over the group's properties such as land and the sea.

The lineage is also a corporate group and its members tend to form the nucleus of a residential unit. In most cases, the individual or extended family should have their own house, which stands side by side in a given settlement. They are bound to one another through their blood ties. As such they have common interests of the kind described for other clan segments, and expect assistance from each other in a wide range of socio-economic and political matters. Like the clan, the authority is linked to male seniority regardless of economic wealth and ability to lead people. In other words, the position is automatically passed on to the next first-born son from the senior family. In the event where the first-born son has died, the authority will be passed on to the second-born son and so forth.

The family

A husband heads each family. He oversees the general welfare of his family in terms of planning and organization, disputes resolution, production and other cultural events. Members of the family (including wife) are expected to support the husband to achieve these social, political and economic goals.

Dominant in the determination of the position of the chief and the likes is seniority. Ideally, a man or woman should respect any other men or women who is his or her senior. The deference to which seniority is entitled and the dependence of the immature on their elders tends to ensure that the authority to control over lineage or clan affairs is vested in the group's most senior male. Moreover, the young are dependent on

their senior kinsmen for much material support and good advice. Hence, they might face a possible withdrawal of these supports if they oppose their elders. In addition, seniority mediates between ancestors and living family members. Naitoro (1978:118) acknowledged this line of thinking by stressing that seniority was closely related to 'Rionimae' (ancestors). He represents the great ancestors symbolically and he is obliged to call upon his lineage-men to come and give general consensus on matters relating to land. The issue is a clear-cut obligation to respect one's senior.

Political organization is more than simply policy-making, it includes administration and enforcement. It also refers to resolution of disputes either peacefully or violently. Throughout the Solomon Islands, the methods used to solve disputes vary greatly from one society to another. Also, the techniques use to solve disputes depends very much on the nature of the problem and the social relationship between parties involved. For instance, at the family level, the husband is the most ideal person to solve disputes among the family. Disputes, however, are solved informally throughout Solomon Islands. In most cases, decision-making is done through consensus and rarely by senior males

One of the common peaceful methods used to settle disputes in the past is through oaths and ordeal. Both methods involve appeals to supernatural power. An oath, however, is the act of calling upon a deity to bear witness to the truth of what one says, while ordeal is a means used to determine guilty or innocent by submitting the accused to dangerous and painful tests believed to be under supernatural control. Oaths and ordeal re-enforces certain core cultural values such as trustworthy, faithfulness and honest. It seeks people to tell the truth so that reconciliation and compensation can be done accordingly. In Solomon Islands, compensation is highly institutionalized, despite the fact that it varies from one society to another. The payment of compensation (in terms of shell money, pig and goods) from the offender to the victim underlines the admission of wrong doers. It takes away hatred and ill feeling and seeks for forgiveness to restore friendship, unity, peace, stability, confidence and respect amongst both sides.

In cases where peaceful strategies have been exhausted and the offender still failed to cooperate, disputes may be resolved violently. Here, physical forces such, as warfare, confrontation and restraint (seize one's properties) methods are likely to be taken. This implies that conflict resolution in the past not only followed a systematic approach but also sought a 'balanced' perspective between those involved.

In short, Solomon Islands practice both chiefly and big man systems of leadership. Its political structure is organized around tribes, clan, lineage and the family. In each of the political units, males were the dominant authority. These socio-political units also provide the

base for conflict resolution. In most cases, decision-making is done by consensus. In that context, this model has provided much room for political stability, accountability and transparency. These elements are vital for achieving sustainable human development.

The next section discusses how the outsiders influenced and changed the way of life (discussed above) of the indigenous people. Such changes would be critically examined in order to identify whether they were in the best interests of the indigenous people or not.

European Contacts in Solomon Islands

Following the contact of outsiders with the indigenous Solomon Islanders in mid 19th century the country has undergone a drastic process of economic, social and political transformation. The missionaries and the British colonial administration, however, introduced the most notable changes. These forces and their impacts are discussed below.

In 1568, the first Europeans to land on the islands was Alvaro de Mendana, a Spanish explorer, who named the islands after the biblical King Solomon;. He also named other islands (e.g. Malaita and San Cristobal or Makira). During the later part of the eighteen-century, other European explorers such as Carter (1767), Bougainville (1768), Surville (1769), La Prouse and Shortland (1788) sailed around the islands and in 1788 'Shortland' was named after the captain (Fox 1967:5). Here, gold and curiosity were the main motives behind their exploration. and very little impact was made on the indigenous people since these explorers had no intention to settle on the islands.

By 1799, whalers and traders came to Solomon Islands. Like the explorers, their main motive was to catch whales and trade with the local people. Goods such as clothes, metal tools and tobacco were exchanged for local products like beche-de-mer and whales teeth. The Solomon Islanders were then exposed to new ideas and began to selectively discard some traditional customs. Consequently, some of the introduced goods became dominant. Reports by the explorers about the Pacific islands in Europe and North America led religious groups to introduce the Christian Gospel to these newly discovered islands. Some missionaries saw that their role was to convert islanders to Christianity and adopt European cultures. There was a pre-dominant assumption that European ideas and values were appropriate for Solomon Islanders.

Viewed against such re-dominant thinking, the first group of Roman Catholic Missionaries, under the leadership of Bishop Epalle landed on Makira and tried to establish a mission station there in 1845. Their efforts however, were unsuccessful, not only due to a number of the missionaries being killed by the indigenous people, but also the climate was not suitable for them to survive. Subsequently, other groups of missionaries came to the Solomon Islands.

These groups include the Anglicans Missionaries who came in 1847 under the command of Bishop Selwyn and the South Seas Evangelical Church (SSEC) Missionaries in 1886 under the leadership of Florence Young. The Roman Catholic missionaries later returned in 1898 while the Methodists came in 1902 and the Seven-Day Adventists (SDA) in 1914.

The early missionaries brought in a new religious doctrine that was based on Christianity. Such a new religious doctrine questioned the traditional way of worshipping (offering and sacrifice to ancestors) and regarded it as 'paganism' and 'uncivilized'. To entice Solomon Islanders away from their traditional religious practices, the missionaries introduced formal education, social work and local health services in an attempt to pacify the indigenous people (Fox 1967), Laracy 1979, Bennett 1987). Moreover, they encouraged small hamlets to come together to form big communities or 'towns'. In most cases big villages or 'towns' were located along the coastal areas. This was done to minimize transport difficulties and to enhance mobilization of the indigenous population. The missionaries taught Solomon Islanders how to write and read and in the process converted them to Christianity. The missionaries were attributed with bringing peace to the Solomon Islanders as well as pioneering formal education, health services and Christianity. They also introduced modern transport such as shipping to the local people. Their contribution to nation building in Solomon Islands was significant. Gradually, the impact of the missionaries was extended throughout the country. As a result, traditional religious practice declined, replaced by Christianity.

Today more than 90per cent of Solomon Islanders are Christians. They belong to five churches: the Church of Melanesian, Roman Catholic Church, South Seas Evangelical Church (SSEC), Uniting Church and the Seventh Day Adventists (SDA). There are also other religions and smaller churches within the country. Over the last decades sects have been broken away from the mainstream churches and have attracted new converts.

The Churches have played a significant role in the transformation of Solomon Islands into a modern economy. They could be seen as being responsible for promoting peace, unity, and friendship by eliminating headhunting and warfare. Some Churches have expanded their role into provision of transportation (shipping and air) throughout the country. Acknowledging the role of Churches in promoting development in Solomon Islands, the government has taken increased responsibility for the provision and payment of teachers. The Solomon Islands Christian Association (SICA) was formed to promote and maintain cooperation and coordination among the churches throughout the country. The (SICA) also assists the government in solving the recent ethnic tension between Guadalcanal and Malaita.

During the 1860s, the labour trade was dominant in the south Pacific. Together with the introduction of firearms by Europeans traders, 'slave trade' profoundly transformed Solomon Islanders. The Europeans had assisted some individuals and groups to dominate others, while facilitating a centralization of power (Wolfers 1983:149). Between 1863 and 1904, hundreds of Solomon Islanders had been forcibly recruited or kidnapped by Europeans labour traders and shipped off to colonial plantations in Queensland, Fiji and Western Samoa. At times local collaborators helped the labour trade either by conducting slave raids or by persuading unwary islanders aboard the labour ships and they were rewarded for their efforts with goods (Parnaby, cited in SISHDR, 1997). A substantial number of Solomon men who were taken in the labour trade did not return. It was estimated that about 25 per cent of islanders recruited for work in Queensland lost their lives in the plantations, and many of those taken to work on plantations in Fiji suffered a similar fate. Foreign diseases such as sexual transmitted diseases (STDs) and TB were introduced. Consequently, the indigenous population not only started to decline experienced increased levels of conflict amongst themselves.

2.5 The British Colonial Administration

Political rivalry between European powers for new territories, labour traffic in the south Pacific, and the continuous pressure from the missionaries now well established in the Solomon Islands, drew Britain into declaring a British Protectorate over New Georgia and the southern part of the Solomon Islands of Guadalcanal, Malaita, Makira (formerly known as San Cristobal), and Savo in 1893. Later in 1898 and 1899, Santa Cruz Islands, including Utupua, Tikopia, Vanikoro, Anuta, Sikaiana, Rennell and Bellona were added to the Protectorate. However, the northern part of the Solomon Islands (Choiseul and Shortlands), Ontong Java and Isabel, which were formerly administered by Germany, were later added onto the protectorate in 1900. This came about as a result of a treaty with Germany and in exchange for Britain's withdrawal from Western Samoa (Fox 1967, UNDP, 1978, Bennett, 1987: 193, Mamaloni, 1992).

Following the declaration of a Protectorate in 1893, the British administrators assumed full political and economic control over all commercial activities in the country. Between 1893 and 1922 the Solomon Islands political administration was subjected to a system of 'severely direct' rule by a small number of government officials acting on behalf of the Fiji-based Western Pacific Commission. Since then, the Solomon Islands was demarcated into four main districts: Western, Central, Malaita and Eastern. By 1922 a system of village administration was established under a Native Administration Regulation, which gave power to British officials to directly, appoint district and village headmen and village constables. These officials were responsible for maintaining law and order, collecting head taxes, keeping population

records, general maintenance of health standards, and enforcing colonial rules (Mamaloni 1992).

During the first half of the British colonial administration, the notion of nation building was almost completely absent from their economic policies. This was because the Solomon Islands administration was to be self funding the chosen solution was the development of plantations. Woodford and other Europeans (the colonial administrators, plantation owners, traders, beachcombers and the missionaries) established several agricultural plantations in the country. Examples of these projects were Ruanua, Rere, Visale, Yandina, Domma, Mamara, Hamilton on Choiseul and Lungga coconut plantations (Fox, 1967, Bennett, 1987). These projects were not only initiated by expatriates, but also more importantly, based on the same development model practised in Africa, Latin America and other colonies. The British development policies reflected an attempt to mobilize the indigenous population in contribution towards their own sustenance and in meeting the colonial government's budgetary needs for the island people.

In 1921, the colonial government encouraged more Solomon Islanders to work on the plantations by introducing a head tax policy. This was placed on males aged between sixteen to thirty years. The motive behind this head tax policy was based on three premises. Firstly, the colony suffered chronic revenue problems. Secondly, taxation could act as an incentive to recruitment of workers to the plantations, and finally, taxation would force 'development' on the islanders (Laracy 1983:12, Akin 1993:145-146). As a result of this head tax, real earnings for most islanders dropped. Moreover, men who were eligible to pay tax, but did not go off to work, and who had no produce to sell had to rely on kin for the cash. This tax was seen as a new external pressure compelling men to work where formerly the choice had been self employment or working for their family (Laracy, 1983, Bennett, 1987).

Consequently, many of the Solomon Islanders were forced to work on Europeans owned plantations for wages in order to pay a head tax to the British colonial Government and for other imported goods. In effect the British officials and other Europeans used Solomon Islanders as primary labour (mostly plantation workers) to produce export products to meet their own needs and interests. The idea was to regulate the participation of the indigenous islanders in the cash economy in order to extract and export more raw materials to Great Britain. Here, the colonial Government officials assumed that the best role for the Solomon Islanders in this new economy was merely as "producers of labour and raw materials such as copra, trochus, and pearl shells; and consumers of imported goods" (Bennett, 1987:193). In the same manner, the colonial officials assumed that a 'top-down' approach was the best developmental strategy for the Solomon Islands. Because of the structural

'top-down' approach employed by the colonial regime, the extent and manner in which the Solomon Islanders were involved in nation building was very much seen as 'receivers'. In other words, the government was the 'creator' and 'producer' of services while the indigenous people were 'receivers' and 'consumers' of these services. As a result, only a small proportion of the total population have been involved in some nation building activities while the majority of the people were left out, especially women.

As a result of such policy objectives, village people were organized into 'communities' and little hamlets were instructed to come together and form big villages or 'towns'. The idea of community-based projects was probably based on the predominant assumption that Solomon Islands traditionally lived and organized themselves in a community; working in large groups and not as individual families. It was assumed that 'communal societies' would facilitate and stimulate people's participation in the production of goods and services for nation building. Here, Kabutaulaka (1997) claimed that while it is true that Solomon Islanders did work together for specific purposes such as gardening and warfare, it is not absolutely correct to assume that they usually work together for the accumulation of 'community wealth' measured in monetary values and administered by a few chosen people. In most cases, the accumulation of material wealth is entirely up to individual families. In fact, the notion of 'community' was created by the British colonial regime to achieve their own political and economic goals.

Following the establishment of the British colonial administration, the indigenous people claimed that they were left out of governance. In fact Solomon Islands have valued and desired access to European and Asian technologies, material goods, cash, health, education. However, the availability of these benefits were accompanied by outsiders' racist attitude toward, and mistreatment of, Solomon Islanders. The development process involved attempts (often unsuccessful) by colonial leaders to transform the indigenous people to emulate a 'modern person' represented by western civilization. The continuous colonial attitude (racism) eventually triggered the Fallowe and *Maasina Ruru* movements toward decolonization and decentralization. From the British point of view, decentralization would enable District officers to carry out their objectives and in particular law and order and the collection of head tax (Fox 1967, Trench, 1944). On the other hand, the indigenous people saw decentralization as the only way in which village people could participate in the political and economic development of the Solomon Islands. While it may be true that decentralization does lead to participation, the two variables are not necessarily identical. The concept of decentralization is often referred to as a process where the central government or an organization transfers or moves part of its physical structures, functions, decision making processes, personnel and legislative power to a lower

level of government situated in another parts of the country (in this case at the village level). In other words, decentralization was nothing more than merely an attempt by the colonial administration to end centralization. As Gegeo (1994:66) described it, "the primary goal of decentralization is not the participation of the village people, but rather the bureaucratization of the periphery". Participation is an ongoing process where the beneficiaries are expected to participate in all levels of decision making.

The Indigenous Responses to Colonial Administration

In the Solomon Islands, moves toward decentralization have resulted from a number of movements. These movements include the Fallowes Movement, Maasina Ruru, and Moro Movement (Gegeo 1994:67). Each of the three movements will be discussed briefly.

The Fallowes Movement

Richard Fallowes, an Anglican missionary working in Isabel, spearheaded the first movement, which took place in the 1930s. The movement claimed that the British administration had neglected the needs of rural and village people in terms of political autonomy, better schools, health services, and better working conditions. As such, Fallowes was pushing for the establishment of a 'Native Parliament' to discuss their problems and prepare demands for submission to the British administration (Laracy, 1983:13-14). Following a series of public meetings organized by Fallowes in 1939, the movement attracted wider support from the local people. Consequently, the movement quickly spread from Isabel to Savo, Neggla, Russell Islands, Guadalcanal, Malaita and Makira (Hilliard, 1978, Laracy, 1983:14).

In containing this movement, the British administration deported Fallowes. As a result, the Fallowes movement ultimately foundered. However, the Fallowes movement was seen as one of the forces that helped persuade the British administration in 1940 to set up a system of courts in all four districts (Malaita, Western, Central and Eastern). This gave the indigenous people some degree of control over their own affairs (Hilliard, 1978, Laracy, 1983:14).

Generally speaking, the establishment of native courts was viewed as a major historical move towards promoting empowerment and the emancipation of the rural areas. However, because of the colonial atmosphere within which the system was set up, it was seen largely as an advisory body to the Government on matters having to do with villagers (Trench, 1944, Gegeo, 1994:67). In other words, native courts were seen as nothing more than one way to keep the indigenous people happy so that they would not pressurize the government over other matters.

Maasina Ruru Movement

The second movement towards decentralization took place after Second War. This movement, which was

spearheaded by Alik Nono'ohimae started from Are'are, Malaita in 1945. This socio-political movement was in response not only to colonial subjugation, which had been experienced during the 1920s and 1930s, but also with the inability of the centralized colonial administration to generate benefits to the majority of the population who lived in the rural areas (Laracy, 1983, Tara, 1991). The underlying motives behind Maasina ruru were decolonization and localization (Gegeo, 1994:69).

The Maasiana ruru (brothers ruled) movement was highly organized. In carrying out the mission, nine people were selected to represent nine districts or regions on Malaita. Most of these people were araha (chiefs) and chosen not only on the basis of their personal experiences with the Europeans cultures, but for their ability to influence and lead in their respective villages as well. For example, five of the chiefs were schoolteachers. One, Timothy George, who represented Small Malaita, was born and educated in Australia. His parents had been indentured labourers in Queensland (Laracy, 1983:21).

Like the Fallowes movement, Maasina ruru's message of socio-political and economic independence had gained currency throughout Malaita. However, it was not until 1946 that Maasiana ruru became formally recognized following a meeting of 5,000 people gathered at the Government station at Auki. The main demand of the meeting was for a minimum wage of twelve pounds per month. As a result, the movement rapidly spread from Malaita to Ulawa, Guadalcanal, Marau, Isabel, Makira, Neggla, and the Western Solomon Islands (Worsley, 1968, Laracy, 1983:21-22).

In response to this movement, the colonial administrators quickly jailed the chiefs and other leaders. However, in 1947 the Government came to realize that it must respond positively to Maasina ruru demands for political autonomy in order to prevent other socio-political movements from forming. As a result, Malaita was the first ever council to be established in the Solomon Islands during the colonial era (Worsley, 1968, Mamaloni, 1981). The rest of the districts (Western, Central, and Eastern) later adopted the model.

Moro Movement

The third movement, which came to be known as Moro Movement, took place on Guadalcanal in 1957 (Davenport and Coker, 1967 cited in Gegeo, 1994). Like the other two previous movements, the Moro movement also demanded social, political and economic autonomy. The focus however, was based on preservation of indigenous culture and the environment (Tara, 1991, Solomon Star, issue 549, cited in Gegeo, 1994:65).

By the 1960s, the Moro movement had spread to other parts of Guadalcanal. To prevent the spread of the movement, the colonial administration quickly

increased technical assistance to the Weather Coast. In spite of that, the Moro movement had gained strong supports from almost half of Guadalcanal people. Since then, the Moro movement has continued to be strong, although it has also become somewhat inter-dependant with the local government.

Today, the Moro movement is the only surviving attempt at decentralization by the indigenous people with its roots in the Fallowes Movement in the 1930s. The Moro village is one of the best cultural centres, which became an attraction site for many tourists to the Solomon Islands. This movement reflects the recent concepts of sustainable human development.

Summary¹⁰¹

Whilst it is accepted that societies are constantly undergoing change the basic structure that is reflected by its history is important from a social security perspective. It appears that most micro finance schemes rely on group solidarity to guarantee the debt commitments of individuals in the group. This assumes that the group solidarity exists. It is somewhat doubtful whether this is the case in the Solomon Islands where the traditional social system is based on individual families and clans and forced or coercive grouping for financial purposes may not be successful and this has been suggested anecdotally in some discussions undertaken by member of the SSPIC project.

These issues will be addressed in a traditional systems and customs study that will explore the optimum environment for microfinance intervention in traditional societies.

¹⁰¹ The summary represents the views of the editor

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Australian National University (ANU)	coombs.anu.edu.au/WWWVL-PacificStudies	Trade, globalisation and Pacific Islands
Institute of Development Studies (IDS, UK)	www.ids.ac.uk/eldis/eldis	Miscellaneous development information
International Labour Organisation	www.ilo.org	Labour; employment data; Information technology indicators
Pacific Islands Forum Secretariat	www.forumsec.org.fj	Trade; economic, etc reports on FICs
Secretariat of the Pacific Community (SPC)	www.spc.int	Various statistics
United Nations Conference on Trade & Development (UNCTAD)	www.unctad.org/en/docs	Global trade issues; data on LDC's
United Nations Children's Fund (UNICEF)	www.unicef.org	Data on youth and children
United Nations Development Fund for Women (UNIFEM)	www.unifem.undp.org	Gender issues
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