

EXPANDING ACCESS TO UNEMPLOYMENT BENEFITS AND ACTIVE SUPPORT TO COVER INFORMAL WORKERS

Combining income support with active labour market policies (ALMPs) is a viable strategy for helping unemployed people while they look for work. However, access to such programmes in developing and emerging countries (where they exist) tends to be restricted to formal sector workers. New evidence from the Mauritian unemployment benefit scheme demonstrates the value of expanding access to cover informal workers¹ as well.

Key findings

- The Workfare Programme in Mauritius is an innovative unemployment benefit scheme that gives both formal and informal workers access to income support and three different types of active support (training, job placement assistance and start-up support).
- The distinctive features of the Mauritian unemployment benefit scheme mean that it is a particularly suitable case study for exploring the effects of combining unemployment benefits with ALMPs in the context of an emerging economy. Evaluation of the programme has revealed the following:
 - There is no evidence of moral hazard effects (i.e. losing one's job deliberately so as to join the programme and receive benefits) and only mild evidence of disincentive effects (i.e. reducing the intensity of one's job search);
 - Although the income support and ALMP components could be further strengthened, they do seem to be effective in reducing the risk of poverty and enhancing employability;
 - There is scope for scaling up the Workfare Programme, both in terms of coverage (to ensure higher participation by informal workers) and in terms of the services provided to participants.

Research question

Traditional unemployment benefit schemes both in developed economies and in emerging and developing economies tend to be restricted to formal workers. This generally has to do with fiscal considerations (i.e. ensuring that the scheme is sustainable) and with concerns over labour market efficiency (i.e. providing jobseekers with incentives for joining the formal labour market).

Labour markets in emerging and developing economies, however, typically comprise a large informal sector. This could increase the risk of moral hazard associated with generous unemployment benefit schemes, as some participants could claim the benefit while working informally. At the same time, since informal workers are generally in more vulnerable situations, they are the

ones who are most in need of the protection offered by unemployment benefits.

The case of Mauritius is particularly instructive in this respect. Eligibility for participation in the country's Workfare Programme (see box 1) is not tied to previous social security contributions; rather, it is based simply on previous employment records, whether they relate to formal or informal jobs.

A second feature that makes this programme so interesting is that receipt of the benefit is conditional on registering for participation in one of three available ALMPs: job placement assistance, start-up support or training (the latter option was discontinued in 2016).

¹ See Chapter 5 of ILO (2019) for a discussion on how informal employment is defined.

Assessment of the Workfare Programme provides a unique opportunity not only to extract lessons for its future enhancement but, thanks to its innovative nature, also to identify opportunities and challenges that are relevant more generally to the application of integrated approaches in emerging and developing economies.

The findings from such an assessment, conducted as part of the project “What works: Promoting pathways to decent work”, are outlined in this Research Brief. For more information, please see: www.ilo.org/pathways-decent-work.

Box 1. Combining unemployment benefits with active support: The Workfare Programme of Mauritius.

The Mauritian unemployment benefit scheme, known as the “Workfare Programme”, is currently the main form of unemployment support available to jobless workers in Mauritius. Launched in 2009, the programme seeks to protect living standards while providing incentives for labour market participation. Contrary to its official name, this programme is not like the workfare programmes implemented in other emerging and developing economies, in which temporary employment is provided to vulnerable individuals in exchange of income support. The programme also bears no resemblance to the strategies adopted in some advanced economies, whereby work is required in exchange for social assistance.

The Workfare Programme targets unemployed workers who were previously employed full-time for at least 180 days without interruption. Provided that their previous job was of sufficient duration, individuals coming from both formal and informal employment may join the programme, as there is no entry requirement linked to social security contributions. All reasons for job loss are accepted in determining eligibility, except for voluntary resignation.

Participants may remain in the programme for a maximum of 12 months, though eligibility ends if a participant finds a new job lasting longer than 30 days. While in the programme, participants receive:

- Unemployment benefits: During the first three months of unemployment, the benefit level is set at 90 per cent of the monthly wage at the moment of job loss. The replacement rate then drops to 60 per cent for the next three months, and after that to 30 per cent for the last six months of participation in the programme. However, the entitlement never falls below 3,000 Mauritian rupees and it never exceeds an upper limit, which in 2018 was set at 16,665 Mauritian rupees (US\$180, and US\$1,020, respectively, in purchasing power terms).
- Active support: At registration, participants are required to choose one out of three available activation measures. First, they may opt for the public employment services provided by their region’s Employment Information Centre. These centres aim to improve the matching between jobseekers and vacancies. Second, participants may obtain support for setting up a new business from the parastatal body Small and Medium Enterprises Mauritius, which offers business counselling and facilitation services. Third, until 2016, when this option was discontinued, participants could sign up for training programmes organized by the National Empowerment Foundation.

The Workfare Programme is managed by the Ministry of Labour, Industrial Relations, Employment and Training in coordination with the Ministry of Social Security, National Solidarity, and Environment and Sustainable Development and other public agencies.

Source: ILO (2019)

What works?

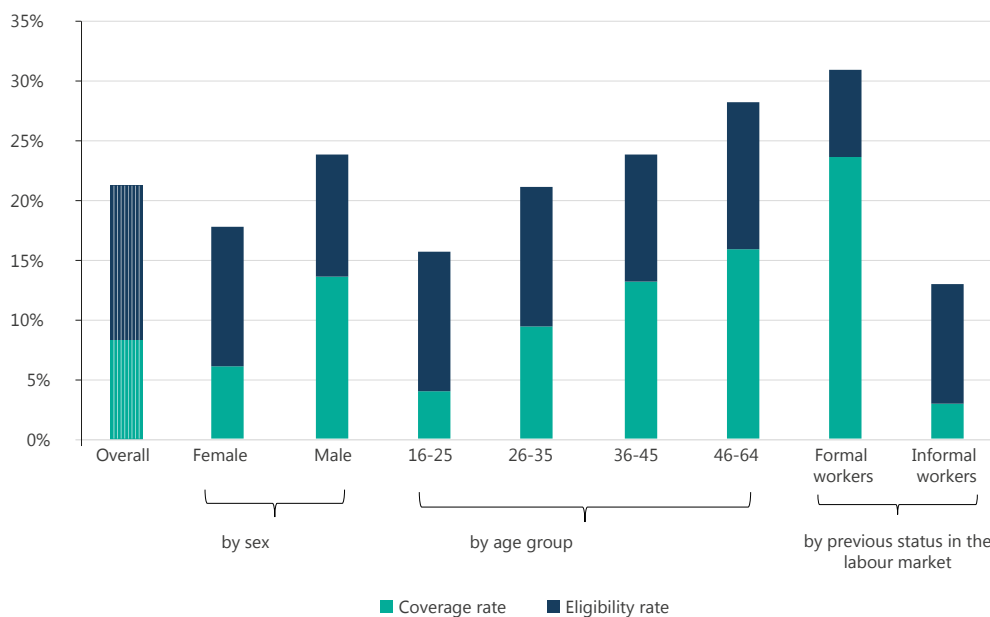
A research project of the Workfare Programme was conducted using both qualitative and quantitative research methods (ILO, 2019; Liepmann and Pignatti, 2019). The main findings are summarized below.

With regard to the programme’s coverage, it was found that:

- Coverage increased from 5 per cent in 2009 to 15 per cent in 2016, which translates into an average coverage of 8 per cent over the entire period of analysis (figure 1).
- Coverage rates differ markedly across certain groups in the labour market: men are almost twice more likely to participate than women (with coverage rates of, respectively, 14 and 8 per cent), and older workers (46–64 years) are four times more likely to participate than younger workers (16–25 years).
- Participation in the Workfare Programme is highest among those who were previously employed formally (coverage rate of 23 per cent); it is considerably lower among those who were previously in informal employment (coverage rate of 3 per cent).
- Disparities in coverage rates across groups are driven by both (a) differences in the likelihood of meeting the eligibility criteria and (b) differences in the likelihood of participating in the programme among otherwise eligible individuals.

- Potential reasons why eligible workers do not join the programme include: (a) lack of awareness of the programme; (b) specific barriers to entry, such as family obligations for women; (c) the preference of some potential beneficiaries, in particular those previously in informal employment, for taking up informal work rather than going through the process of enrolment in the programme; and (d) scepticism about the gains to be expected from participation.
- The vast majority of participants (92 per cent) joined the programme only once between 2009 and 2016, which points to the fact that people do not deliberately lose their jobs so that they can keep on rejoining.
- Most participants (71 per cent) stay in the programme for the entire period of 12 months. This seems to be driven by low re-employment rates in the formal sector rather than by job-search disincentive effects.
- The replacement rate of unemployment benefits in Mauritius is initially very high by international standards (90 per cent of the previous wage), but then decreases very sharply. Most participants are therefore at risk of poverty during their last months in the programme.
- Out of the three available types of activation measure, most participants (85 per cent) opt for job placement, which testifies to their keenness to regain employment.
- With regard to the programme's effect on labour market outcomes, it was found that:
 - There was only a small negative effect of benefit generosity on the probability of being employed after the end of the programme. This effect is more likely to be observed among participants with previously higher incomes probably because they have less incentive to look for a job immediately after the income support ends (ILO, 2019).
 - Job placement is the most effective of the three activation measures in terms of promoting rapid re-employment. Training, however, results in larger gains in terms of both employment probability and wages over time. Start-up support is the least effective option when it comes to securing formal employment for participants in the programme, which may be because many new businesses start off operating in the informal sector.

Figure 1. Coverage and eligibility rates for the Workfare Programme, overall and by groups



Note: Eligibility rates refer to the share of unemployed individuals meeting the criteria for participation in the Workfare Programme. Coverage rates refer to the share of unemployed individuals actually participating in the programme.

Source: ILO (2019).

Policy considerations

The analysis has shown that in general, not only the Mauritian Workfare programme is innovative, but it is also well-conceived. The programme's success demonstrates that the combination of unemployment benefits with mandatory participation in activation measures is a viable way of supporting unemployed individuals in developing and emerging countries. By modifying certain aspects, however, the Workfare Programme could be made even more effective:

Expanding coverage

Although the programme's coverage has increased over time, it remains concentrated among specific groups in the labour market. In order to ensure adequate coverage for all jobseekers, a first step might be to relax the eligibility criteria. Workers who have quit their job are currently not eligible to participate. Yet, voluntary resignation is not necessarily a sign of low attachment to the labour

market. People quit their jobs for several reasons, some of which may not be totally voluntary (e.g. taking on family responsibilities, dissatisfaction with one's current job). To increase the programme's coverage, workers who have voluntarily resigned could be allowed to join; certain penalty mechanisms could be introduced to discourage opportunism (e.g. introduction of a waiting period before claiming the benefit).

Similarly, relaxing the criterion of previous employment (180 days of continuous full-time employment are currently required) could help increase coverage. The current strict requirement is less likely to be met by young people and women, who are among those in the greatest need of support as they search for a job. Further options include simplifying the registration procedure, which currently seems to deter informal workers from joining the programme, and conducting awareness-raising campaigns throughout the country.

Adjustments to design and implementation

The generosity of the income support could be increased by raising the minimum replacement rate (currently 30 per cent of the previous wage for the last six months of participation) and also the minimum benefit level (currently 3,000 Mauritian rupees per month, or US\$180 in purchasing power terms). Such changes would establish a social protection floor that allows individuals and households

to maintain a basic level of consumption. Moreover, the process of targeting income support according to individual or household characteristics could be introduced to ensure that financial resources are indeed channelled towards those most in need.

With regard to the activation component, participants who opt for job placement would benefit from more personalized assistance (e.g. counselling). Requiring participants to report more frequently to the public employment centres would promote attachment to the labour market. Enhancing the start-up support option and reintroducing the training option, which was discontinued in 2016, would be further meaningful steps.

Increasing transparency and involvement in the management of the programme

Together with the Government, both workers' and employers' organizations should be closely involved in the design and management of the Workfare Programme. The feasibility of some of the modifications proposed above would depend on the sustainability of the fund that finances the programme (the "Workfare Programme Fund"). To ensure fairness and transparency, it is important that any changes be discussed with representatives of both workers' and employers' organizations. A tripartite committee, with representatives of workers' and employers' organizations and the government, could be set up for that purpose.

Further reading

Asenjo, A.; Pignatti, C. 2019. *Unemployment insurance schemes around the world: Evidence and policy options*, Research Department Working Paper No. 49 (Geneva, ILO).

International Labour Organization (ILO). 2019. *What works: Promoting pathways to decent work* (Geneva).

Liepmann, H.; Pignatti, C. 2019. *Eligibility and participation in unemployment benefit schemes: Evidence from Mauritius*, Research Department Working Paper No. 50 (Geneva, ILO).

For more information or clarification please contact Clemente Pignatti, Labour Market Trends and Policy Evaluation Unit of the ILO Research Department, at pignatti@ilo.org. Further information is also available at: www.ilo.org/pathways-decent-work.