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Social Protection Index Brief: Labor Market Programs in Asia and the Pacific

Abstract

[Excerpt] The Asian Development Bank (ADB) report *The Social Protection Index: Assessing Results for Asia and the Pacific* (2013) documents the negligible role of labor market programs in social protection programs across the region.

Keywords

Asia, Pacific, labor market programs, social protection

Comments

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Key Points

- Labor market programs feature little in social protection programs in Asia and the Pacific.
- Investments in active labor market programs in 35 countries are mostly food- or cash-for-work and skills development and training programs.
- South Asia is doing more on labor market programs when compared to other parts of Asia and the Pacific, but expenditures remain relatively modest.
- Coverage of labor market programs remains low at 22% of potential beneficiaries.
- Men tend to receive more benefits from labor market programs than women, underlining the gender gap in access to economic opportunities such as jobs.

Social Protection Index Brief: Labor Market Programs in Asia and the Pacific

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Introduction

The Asian Development Bank (ADB) report *The Social Protection Index: Assessing Results for Asia and the Pacific* (2013) documents the negligible role of labor market programs in social protection programs across the region.

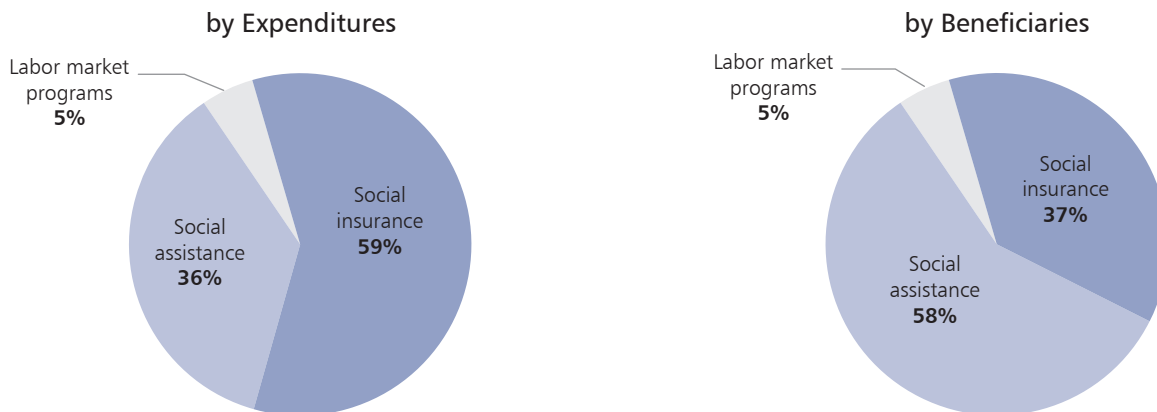
Figure 1 shows the modest role of labor market programs in the overall social protection programs in Asia and the Pacific. They account for only about 5% of total expenditures and total beneficiaries.

The extent of coverage (breadth) of labor market programs is measured by the ratio of actual beneficiaries to potential beneficiaries. In Asia and the Pacific, potential beneficiaries of labor market programs are unemployed and underemployed persons. Figure 2 shows that labor market programs have the narrowest coverage among the three major categories of social protection; only 22% of the unemployed and underemployed benefit from labor market programs. These results suggest that the major priority for labor market programs in Asia and the Pacific is to substantially expand their coverage.

However, knowing the breadth of the program is not enough. The reach of the program also needs to be gauged against the depth or size of benefits received to assess the adequacy of the labor market program. Using data generated under ADB's Social Protection Index (SPI) project, beneficiaries from labor market programs receive average benefits that are equivalent to about 37% of poverty-line expenditures. This is higher than the average benefits provided by social assistance.

The poor and the nonpoor derive similar (though marginal) benefits from these programs. The poor receive 47% of all benefits and the nonpoor receive 53%. Part of the explanation for this result is that in countries such as Bangladesh and India, which both support substantial food- or cash-for-work programs, the poor appear to benefit roughly as much as the nonpoor. In India, for example, the SPI for the poor of labor market programs almost equals the SPI for the nonpoor (0.010 vs. 0.011).

Figure 1 Share of Social Protection Programs, 2009



Source: ADB. 2013. *The Social Protection Index: Assessing Results for Asia and the Pacific*. Manila.

Though economic growth has been rapid, quality employment has lagged

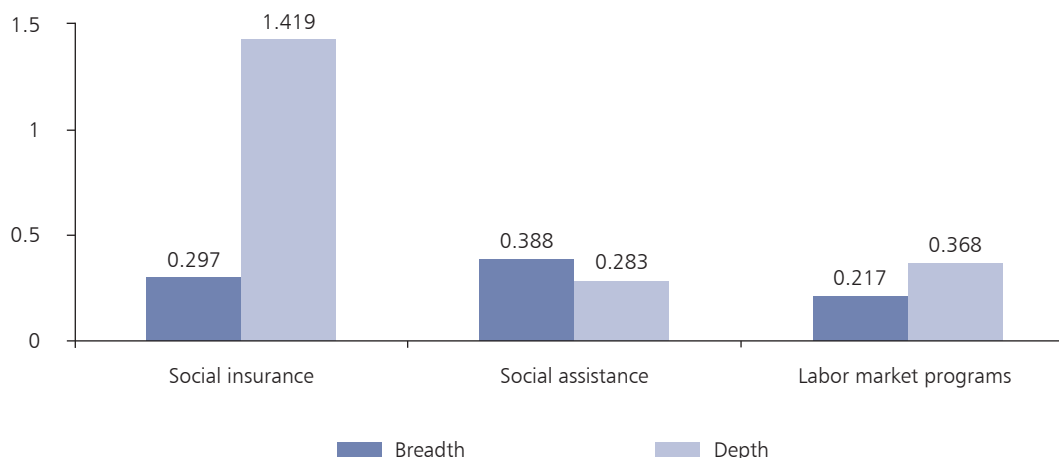
The results for gender are somewhat different. Overall, the SPI for women of labor market programs is only 0.001 while the SPI for men is 0.002. In other words, men garner about two-thirds of the benefits of such programs.

This pattern appears to prevail fairly consistently across most countries in the region.

It is important to note that labor market programs are intended to promote employment, an objective that can only be met by multiple coordinated policies and actions. Social protection can support job creation, but it cannot determine its success.

One of the major problems in the region is that although economic growth has generally been strong,

Figure 2 Adequacy of Coverage (Breadth) and Size of the Benefits (Depth) for the Three Major Categories of Social Protection



Source: ADB. 2013. *The Social Protection Index: Assessing Results for Asia and the Pacific*. Manila.

improvements in the quality and quantity of employment have not followed. For instance, informal workers account for two-thirds of those employed in Asia and the Pacific. This is one of the highest regional averages in the world (ADB 2011). Moreover, about 44% of the employed are still engaged in mostly low-productivity work in the agriculture sector.

Subcomponents of Labor Market Programs

The SPI defines labor market programs to include both active labor market programs (e.g., food- or cash-for-work schemes) and passive labor market programs (e.g., unemployment insurance, maternity leave, and disability insurance).

Only active labor market programs are included in the general labor market program category of the SPI. Passive labor market programs are included as part of social insurance because they are contributory schemes. The two active labor market programs covered by the SPI project are skills development and training, and food- or cash-for-work programs. Food- or cash-for-work programs are slightly more prominent, accounting for 54% of all expenditures and 52% all beneficiaries of active labor market programs. Correspondingly, skills development programs account for a little less than half of all expenditures and all beneficiaries.

Figure 3 examines all labor market programs, whether active or passive. Passive labor market programs

Expenditures on passive labor market programs only benefit a relatively small group of beneficiaries

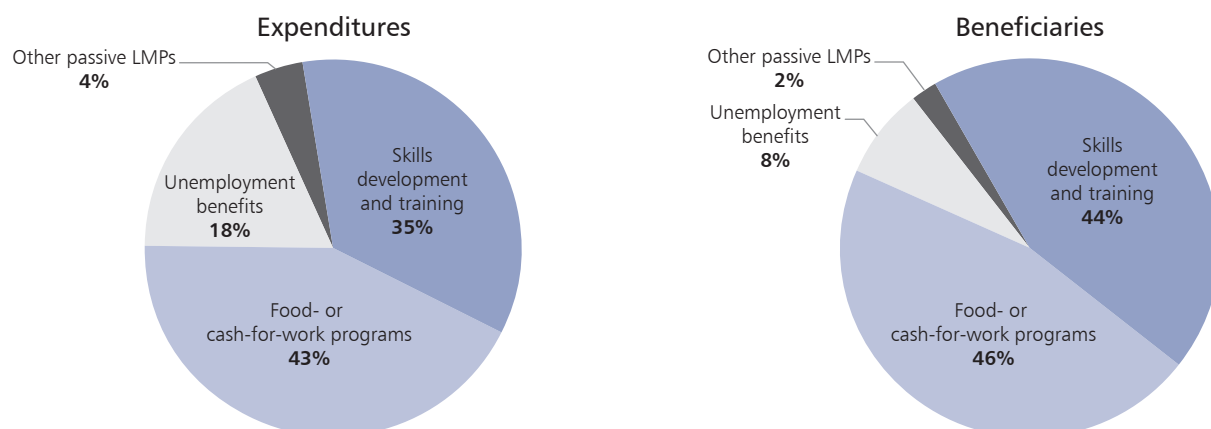
account for 22% of total expenditures on labor market programs, but reach only 10% of the total beneficiaries. Expenditures on passive labor market programs tend to benefit only a relatively small group of beneficiaries, such as urban formal sector workers, and those working in the public sector or in sizable private sector firms.

Skills Development and Training

Skills development and training is an important subcomponent of labor market programs in Asia and the Pacific and often overlaps with technical and vocational education and training (TVET) programs. However, while some forms of TVET can be part of social protection, others can represent general education sector interventions that promote human capital and support general economic growth and development.

TVET's link with social protection programs depends on whether it is designed to address the needs of the unemployed and the underemployed. Whereas unemployment can be clearly defined, underemployment

Figure 3 Share of Labor Market Program Expenditures and Beneficiaries by Major Components, 2009



LMP = labor market program.

Source: ADB. 2013. *The Social Protection Index: Assessing Results for Asia and the Pacific*. Manila.

does not have a generally accepted operational definition. The SPI considers underemployment to be a deficiency of work based on a lack of working hours per week, or intermittent, insufficient work over a longer period of time.

Despite the definitional challenge, using the unemployed and underemployed as the potential beneficiaries of labor market programs helps to clarify the aspects of skills development and training that should be regarded appropriately as social protection.

Most countries in Asia and the Pacific devote minimal resources to skills development and training. In a few countries, such as Bhutan, the Maldives, and the Marshall Islands, skills development and training is the only form of labor market program.

Thailand implemented a program to assist the jobless, Tonkla-Archeep, as part of its countercyclical response to the global economic downturn that started in 2008. Accounting for about 4% of all of Thailand's social protection spending in 2009, Tonkla-Archeep combined a skills development and training program with an unemployment insurance program that helped 140,000 unemployed workers secure employment, and provided benefits and training to another 200,000.

The program also provided financial support to companies that were willing to postpone the layoffs of roughly 200,000 additional workers. Thus, the total number of the program's beneficiaries, 540,000, represented almost 7% of the estimated 8 million unemployed and underemployed in Thailand.

In the Philippines, skills development and training accounted in 2009 for 57% of all expenditures on labor market programs, and over 90% of all the beneficiaries of such programs. This was a community-based training scheme designed to address the needs of poor and marginalized workers who lack access to formal training programs.

Countries in Asia and the Pacific devoted little funding for labor market programs

Such workers have few economic options since they lack skills and cannot even obtain credit to start microenterprises. In addition to providing training, the program has tried to motivate people to engage in productive activities, and thereby contribute economically to their communities.

Initiating successful skills development and training programs in South Asia, the subregion with the lowest income per person, is a particularly severe challenge. While this region's unemployment rate is low, its underemployment rate is estimated to be over 30%. Furthermore, over 70% of its labor force works in the informal sector (Panth 2013). In India and Nepal, more than half the labor force has not even completed primary education (Panth 2013). These countries also have a relatively young population, a factor that creates the additional challenge of finding jobs for the large number of new entrants into the labor force each year. Hence, skills development and training needs to be scaled up significantly to prepare young workers for productive employment.

Programs Providing Food- or Cash-for-Work

When labor market programs constitute a significant share of total expenditures on social protection in a country in Asia and the Pacific, food- or cash-for-work programs are predominant. This is the case, for example, in Afghanistan, Bangladesh, Cambodia, India, and Samoa.

In India, SPI data suggest that the large-scale Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) program accounted for 40% of all of central government social protection spending in 2009. Initiated in 2005, this program is designed to guarantee, as a legal right, 100 days of employment per year at the minimum wage to rural workers willing to engage in unskilled manual work on local infrastructure projects.

While it is true that the MGNREGA program provides significant employment opportunities, especially for unskilled workers, the program cannot fully satisfy the widespread demand for productive jobs in rural India. Although the program provided employment to 50 million workers in 2009, twice that number had applied for the job cards that would give them the right to such employment.

The program has also been criticized for failing to provide meaningful skills development and training. This factor

might explain why even though the MGNREGA program has often been successful in building useful rural infrastructure (Deininger and Liu 2013), some of the irrigation works and roads built by semi-skilled or unskilled workers have been found to be of poor quality. A possible response to this shortcoming would be to more closely integrate skills development and training initiatives with such food- or cash-for-work programs.

Afghanistan's food-for-work program was set up with assistance from the World Food Programme (WFP) to address the country's high level of unemployment, which was caused, in part, by the return of 3 million refugees in the early years of the new millennium. SPI data for 2009 indicated that 841,000 benefited from this food-for-work program. The program mobilized local communities to identify their priorities for local infrastructure. The value of food rations provided to beneficiaries was deliberately kept lower than the wages of a day laborer, but there were claims that labor devoted to local projects had been diverted away from other agricultural activities (World Bank 2005). Some beneficiary households expressed a preference for cash payments rather than the food rations. However, a WFP evaluation of the program found it to be generally successful in helping households cope with food shortages, and build or rehabilitate local infrastructure (WFP 2009).

Passive Labor Market Programs

Passive labor market programs play a modest role in providing social protection for workers in Asia and the Pacific. Unemployment benefits are, by far, the largest component of such passive programs.

Unemployment benefits account for 18% of all expenditures on both active and passive labor market programs, but they cover only 8% of all beneficiaries of labor market programs (Figure 3). Such beneficiaries tend to be concentrated among workers who have been employed in the public sector or sizable private enterprises.

In general, unemployment benefits play a significant role in high-income countries (such as the Republic of Korea) and transition economies (such as Armenia and Uzbekistan). In 2009, unemployment benefits accounted for about 39% of all expenditures on labor market programs in the Republic of Korea and 48% in Uzbekistan.

Unemployment benefits constitute an important part of the Republic of Korea's broad Employment Insurance System, which includes an Employment Stabilization Program and a Vocational Ability Development Program. Few countries, however, are in a position to finance such an extensive system. The unemployment benefits program consists of three separate components: (i) standard job-seeking allowances; (ii) extended job-search benefits for those participating in vocational training once the standard allowances have expired; and (iii) employment promotion allowances that are still paid to individuals even after they are employed, in cases where workers have found a new job quickly.

In general, both the number of unemployment benefits recipients and the level of their benefits have increased with the expansion of the program's coverage. Between 1998 and 2008, the cost of the unemployment benefits program increased from 0.17% to 0.28% of the country's gross domestic product, while the number of covered workers increased threefold (S. T. Kim 2010). One reason for the success of the program has been the relatively high degree of formalization of employment in the Republic of Korea, relative to other countries in Asia and the Pacific.

However, even in a highly formalized economy, there remain a significant number of irregular workers, including part-time, contract, and self-employed workers, who are not covered by unemployment benefits. In 2009, this category represented over a third of the workforce in the Republic of Korea. A comprehensive unemployment insurance system could help such workers (M. J. Kim 2010), where it is also accompanied by active labor market programs.

Other passive labor market programs, like severance payments and work-injury insurance, are quite weak in Asia and the Pacific. These are shown as part of "other passive labor market programs" in Figure 3. Such programs account for only 4% of all labor market expenditures and a mere 2% of all beneficiaries. Only in a few countries, such as the Republic of Korea, Samoa, and Singapore, do they constitute a significant share of expenditures on labor market programs.

Limits of Labor Market Programs

Labor market programs, both active and passive, have accounted for only a small share of the total expenditures and the total beneficiaries of social protection programs in Asia and the Pacific. These programs are poorly linked to

the other two major categories of social protection—social insurance and social assistance. The poor tend to receive somewhat fewer benefits than the nonpoor from active and passive labor market programs, but for such programs women are at a much greater disadvantage than men.

Passive labor market programs, including unemployment insurance, have been relatively insignificant, except in some high-income countries and transition economies. In these contexts, their importance has increased since the latter half of the 1990s. However, they are unlikely to become significant forms of social protection in the short to medium term, particularly in lower-middle income and low income countries.

Active labor market programs, particularly special work programs, are important, especially in South Asia. Such programs have had some notable success in providing income and food security to poor and vulnerable workers through temporary employment on infrastructure projects. Across Asia and the Pacific, skills development and training programs that address the needs of the unemployed and underemployed are generally small.

Data from the 2009 SPI report suggest that food- or cash-for-work programs could be a viable option for addressing unemployment and underemployment in many developing countries in the region, where many workers are unskilled and laboring in precarious conditions in agriculture or in the urban informal service sector. However, to be more sustainable, special work programs should have skills development and training as a core component.

These active programs are primarily designed to provide supportive benefits to workers who are either unemployed or remain trapped in low-paid employment. Yet, they cannot guarantee the kind of quality employment that many workers need in order to escape poverty and vulnerable circumstances. Hence, it is important to recognize that skills development and training, and special work programs, cannot in themselves overcome the structural deficiencies of economies in which quality employment is not widely available to low-skilled workers (ADB 2011).

Ultimately, countries would reap more positive impacts of labor market programs if they are designed and implemented within an overall national development framework that fosters both growth and widespread productive employment, as well as within a coherent national social protection strategy.

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