

© Friedrich Ebert Stiftung, Singapore 2002

First published in 2002 by
Friedrich Ebert Stiftung
Office for Regional Co-operation in Southeast Asia
7500A Beach Road #12-320/321/322 The Plaza
Singapore 199591

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ISBN 3-89892-122-0

Printed in Germany 2002
by Toennes Satz + Druck GmbH, Erkrath

Editors: Erfried Adam, Michael von Hauff and Marei John

Copyeditor: Barbara Griffin

Typesetting: POPYRUS – Schreib- und Büroservice, Bonn

Cover Designer: Pellens Kommunikationsdesign GmbH, Bonn, and Stephen Logan

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Foreword

Social protection systems have been set up successfully in Southeast and East Asia during the last decades and most countries have achieved considerable progress in providing security to their citizens. But at the same time, many social protection systems are characterized by lack of coverage, insufficient funds and ineffective institutions. Especially the recent Asian crisis uncovered some limitations of the existing schemes.

In order to promote social democracy and international understanding, the field of social policy has always played a central role in the work of Friedrich Ebert Stiftung. In this context, social protection systems are crucial in protecting people against the contingencies of life. The project 'Social protection in Southeast and East Asia' was initiated by the Friedrich Ebert Stiftung Office for Regional Co-operation in Southeast Asia located in Singapore. Its aim is to promote dialogue on the existing social protection systems within the countries and to share experiences on a regional level. Based on a regional workshop, country studies have been developed including seven ASEAN countries (Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam) and South Korea.

What is special about this project, considering the large number of studies available in this field? We aimed at achieving a *comprehensive* picture of social protection in the individual countries. Therefore the institutionalized system of social security, the informal sector and related labour market policies were included. Using such a broad perspective, not every detail about each scheme can be dealt with. However, the main achievements and challenges of the existing social protection systems become apparent and the need for coordination between different schemes is highlighted. These findings provide the basis for policy recommendations for each country.

Obviously, these studies signify only one step in the whole project. They provide the basis for further discussion between trade unions, NGOs, academics, politicians and officials involved in designing social protection systems. Our networks in the individual countries can be used to facilitate a regional exchange as well as coordinated efforts in improving existing schemes.

We would like to thank all the authors who contributed to this publication, as well as the project leaders in the Friedrich Ebert Stiftung offices in the corresponding countries who helped to make this regional project possible. Special thanks go to Mrs. Belinda Wong and Michael Tröster for their help at various stages of the project.

Erfried Adam, Michael von Hauff and Marei John
The Editors

Social Protection in Southeast and East Asia – Towards a Comprehensive Picture¹

Marei John

The Project ...

‘An efficient and effective social protection system will support both social stability and social justice as well as economic development’². In this context, the aim of the Friedrich Ebert Stiftung project on ‘Social protection in Southeast and East Asia’ is to promote dialogue on the existing social protection systems within the individual countries and to facilitate an exchange of experiences and best-practice examples on a regional level. The individual country studies serve the purpose of giving an overview on current social protection systems as well as policy recommendations for the further development of the systems of social protection.

The following preliminary conclusions may serve as a basis for further discussion:

- 1) While most countries have successfully developed comprehensive systems of social protection, difficulties in implementation remain enormous.
- 2) Some social protection systems do not adequately reflect economic development or lack thereof.
- 3) No solutions have been found so far in order to deal effectively with the informal sector.

After explaining the background of the project as well as the structural framework of the studies, these statements will be examined in more detail.

The Background ...

As described in the article on ‘The Relevance of Social Security for Economic Development’ in this publication, access to social security is a basic right. How far is this right granted in Southeast and East Asian states? All examined countries have some form of social protection, but with differing ranges, degrees of intensity, and efficiency of the schemes. Existing social protection systems are usually described as achieving only very limited coverage, struggling with insufficient funds and ineffective institutions. The informal sector is growing in most countries, leaving large parts of the population unprotected.

During the Asian crisis of 1997/98, it became particularly clear in some states that informal family and community-based social safety nets – supplemented by modest

1 This introduction is based on the original ‘terms of reference’ for the country studies. Special thanks go to Michael von Hauff for his contributions to this paper.

2 See ‘The Relevance of Social Security for Economic Development’ by Michael von Hauff.

government programmes – are not adequate in the face of serious economic crises to prevent a significant growth of poverty and the associated risk of social tension and disturbances. Industrialization and urbanization plus social mobility have additionally resulted in the disintegration of traditional forms of social protection.

In the years after the Asian crisis numerous short-term measures were introduced in order to smooth the social consequences of the financial and economic crisis and generally give support to the poor. However, the current project implemented by Friedrich Ebert Stiftung is supposed to look not only at the most vulnerable groups of the population, but to cover the whole population. Looking at the situation of only one specific group should be avoided because this always involves the risk of improving the situation of one group at the expense of another. This is aggravated by the risk of implementing overlapping or conflicting measures, which are not coordinated with each other.

Social protection aims at overcoming risks and preventing risks, therefore three areas have been included to achieve a comprehensive picture: The institutionalized system of social security/social insurance, the informal sector, and related labour market policies. Social policy (education, housing etc.) is considered within the general framework. The project addresses government officials, ministries, employers' organizations, and insurance providers in order to give support to policy makers to establish an integrated and coordinated national policy on social protection. At the same time, trade unions and civil society organizations shall be given relevant input to actively participate in the political discussion on social protection systems.

Definitions: Social Protection and Social Security

There is a wide range of definitions of social security and social protection. Generally, we agreed to use the broader term **social protection**, including:

- Social insurance (social security) and savings schemes, such as industrial accident, health, old age and unemployment insurance. In other words, these are defined as contributory schemes for contingencies such as employment injury, occupational disease, sickness, maternity, invalidity, old age, death, or unemployment.
- Social assistance and services, such as benefits and transfers. These are defined as social welfare, usually tax- or donor-financed and mostly means-tested.
- Labour market policies.

Thereby, we refer to the common ILO definitions (ILO, World Labour Report, 2000). **Social security** is defined as the protection that society provides for its members through a series of public measures. The term is used mostly in the context of insurance-type schemes including mainly statutory social security schemes, but also other contributory (insurance-type) schemes such as employer-provided pension plans, community-based schemes, and private health insurance. **Social protection** is defined 'to include not only public social security schemes but also private and non-statutory schemes with similar objectives, formal or informal'. In other words, social protec-

tion encompasses a broader range of public and private measures including all non-contributory provisions such as tax- and donor-financed welfare programmes.

Social security is most often used as an equivalent for social insurance or formal, institutionalized schemes set up by the government and/or by legislation in the so-called formal sector. In the last two decades, however, there has been an intensive discussion on whether and how social security measures (e.g. health insurance) can be transferred to the informal sector (extension of coverage). The studies in this book provide different answers to this question.

(Lack of) Definition of the Informal Sector

Concerning the informal sector, there is still no generally accepted definition. In 1976, Sethuraman/ILO developed a catalogue of criteria which still provides a good guideline. According to this, economic activities belong to the informal sector when either

- Family workers work in a business,
- Less than 10 people are employed in a business,
- There are no legal regulations or existing regulations are not observed,
- There are no regular working times,
- The workers have less than six years schooling,
- The work is seasonal,
- No electricity is available in the workplace or
- There is no dependency on regular loans.

A more up-to-date definition of the ILO was agreed during the 15th International Conference of Labour Statisticians in 1993, which refers to an informal sector enterprise as ‘a private non-agricultural business which is household-operated and has a total of, at most, five paid employees’.

An alternative sub-classification of the informal sector, which appears in connection with social security systems, is the following:

- Persons with regular employment, but without an employment contract, who do not enjoy the protection of social legislation or social security systems
- Persons who do not have a regular income due to the casual or seasonal nature of the work and who do not fall under the protection of social security systems (this also refers to migrant workers); self-employed workers
- Unemployed persons.

In connection with social security it makes sense to include the unemployed in the categorization of the informal sector, as they usually will have to look for jobs in the informal sector, provided they do not find work in the formal sector immediately and their family is not able to support them. Only in some cases they might benefit from a statutory scheme, e.g. unemployment insurance, or may have acquired pension rights by contributing previously to such a scheme.

The Framework

Each of the country studies in this publication comprises five main sections, 1) Institutional framework, 2) Review of the existing system, 3) Assessment of the effectiveness and efficiency of the existing system, 4) Development of innovative programmes and alternative social protection schemes, and 5) Policy recommendations, in order to achieve a comprehensive picture. Using such a framework makes the studies comparable, which, in turn, is the basis for an intensive dialogue on a regional level. Please see the appendix for a complete overview of the structure of the studies.

1) Institutional Framework: Social protection is significant to stabilize an economy. There is a positive relationship between social protection and economic development, as long as the social protection system is effective and efficient. The justification lies both in the economic framework theory and policy as well as in macroeconomic justifications: A) Stabilization of the social and economic order, avoidance of social costs and safeguarding of labour potential; B) Stabilization of demand for consumer goods (built-in stabilizers); the purchasing power of the working class will be protected even in times of crisis.

Based on these considerations and in order to provide the relevant country background, the first section gives an overview over the general political, social and economic framework of the specific country. Furthermore, it includes information on quality and availability of data, the existing institutional framework, government support and the traditional and contemporary perception of the social protection system.

2) Review of the Existing System: Due to the existing, deep rooted and decisive differences between the formal and informal sector concerning social protection systems, this chapter will examine the two sectors separately. The examination of existing measures includes information on financing (personal contributions/savings, taxes, the capital market), the providers of each scheme (state, private) as well as on beneficiaries. The demarcation of statutory and non-statutory social security systems requires a categorization of the formal (organized) and informal sector.

It should be taken into account that in some Asian countries the **formal sector** only has a relatively small influence on economic growth and employment. In other cases, however, this may not be true as capital-intensive high productivity industries such as multinationals are part of the formal sector. Politically, more attention has always been paid to the formal sector. It generates tax revenue for the state and is generally considered to be progressive and productive. Section 2.1 deals with the formal sector and provides an introduction to social insurance and savings schemes (such as industrial accident, health, old age/death and unemployment insurance) as well as additional social assistance offered by the state to formal sector workers.

The **informal sector** in many countries, on the other hand, is playing an increasingly important role in this respect and therefore deserves greater attention. The main problems arise from the fact that informal sector workers are usually non-legal and outside the scope of official statistics and government regulation – therefore it is extremely difficult to give reliable assessments according to the specific size of the

sector and its necessities. Section 2.2 provides information on its problems and features, on existing benefits and transfers available for this sector and, usually most importantly, on savings, small credit and micro-insurance schemes.

As it is an important element of a comprehensive and sustainable social protection scheme, attention is also paid to supporting **labour market policies**. Employment is the most important form of social protection for workers. At this point, it is not intended to deal with macroeconomic dimensions and measures in detail, but more with training and supportive programmes to improve people's reintegration in the working process or prevent dropout and unemployment. Job creation programmes are usually more attractive, as the labour markets of most developing countries are characterized by a high degree of informal activity. In section 2.3, we distinguish between active labour market policies (creating job opportunities, human capital formation, matching job seekers) and passive labour market policies (educational system, retrenchment payments, minimum wage policy, occupational safety and health).

For a long time, labour market policy in the formal sector was restricted primarily to the promotion of economic growth. Usually, 'conventional' labour market policy was not geared to the informal sector and thus only covered a fraction of the labour potential. Labour market programmes for the informal sector are offered both by NGOs and to a certain extent by government bodies. The effectiveness hinges to a very large extent on the quality of labour market analyses, the legal structuring, the implementation of labour market legislation and the quality of the state's labour market administration. In all three areas, there are still significant deficits in many developing countries (e.g. in the regular statistical survey of labour market data). There is, however, no doubt that the formulation and implementation of instruments of labour market policy depend largely on the methodological approach and accuracy of labour market analyses.

3) Assessment of the Effectiveness and Efficiency of the Existing System: The idea is that new proposals should not be made without first looking at the effectiveness and efficiency of the existing model. The evaluation of social security systems is a relatively new field of research, especially in the context of the long-term goal of 'social protection for all' and the study of new approaches as alternatives to the existing statutory schemes. One has to bear in mind who has set out the objectives, if they are sufficient to cover basic needs at least, if they are realistic and achievable within the set time frame and the existing means and if it was seriously intended to meet them at all. The following fields for analysis have been agreed on: Coverage, feasibility, financial sustainability, gender equity, costs of administration, targeting, accountability & transparency.

4) Development of Innovative Programmes and Alternative Social Protection Schemes: This chapter is open to proposals, suggestions for improvement, and new innovative ideas. After having stated and analysed the positive features and deficiencies of the existing system, the aim is to tackle the question where changes are deemed necessary and which best-practice examples can be identified. Usually it is neither possible nor desirable to completely substitute the existing model with an-

other one. New ideas always have to be built into the existing system. Specific attention has been paid to the development of possible schemes to provide adequate coverage to the informal sector.

5) Policy Recommendations: After having presented suggestions for improving existing schemes, policy recommendations are made in order to answer the question of how these ideas can be implemented and by whom. Looking at general development trends, the model of a system of social protection in which both the state and private and charitable bodies assume complementary functions will assert itself. The authors show possible solutions for their specific countries.

Some Preliminary Conclusions

Examining the systems of social protection, it is apparent that serious efforts have been made to provide sufficient coverage to the population against various contingencies. However, more often than not, the existing system focuses on the formal sector only. The informal sector including the self-employed, daily and family workers are outside the scope of the system, and social assistance is insignificant. The Asian financial crisis has altered perceptions somewhat, due to the sheer magnitude of adversity that workers and vulnerable groups faced. In recognition of this fact, efforts are increasingly apparent to reassess the existing systems. However, need for reform is not only obvious in the implementation of specific measures, but also in the general design of the social protection systems. On a large scale, the following preliminary conclusions may be drawn:

1. *While most countries have successfully developed comprehensive systems of social protection, difficulties in implementation remain enormous.*

Common problems include lack of coverage, lack of financial sustainability and lack of coordination between different measures. This is aggravated by lack of reliable data and statistics, and ineffective administration. Often tax evasion, low income tax revenues and/or corruption lead to lack of financial resources.

The studies give varying suggestions based on the specific context in order to tackle these problems. Generally, the government has to play a more pro-active role in terms of enforcement and in dealing with a low/not existing tax base. At the same time, in some cases the role of the private sector should be improved, always keeping in mind whether the state or the private sector can offer the best performance in terms of effectiveness and efficiency.

2. *Some social protection systems do not adequately reflect economic development or lack thereof.*

In some of the poorer countries, economic development does not support the complex (sometimes even generous) systems, which were developed. Some systems promise adequate benefits for the whole population. However, with low contribution rates, inadequate long-term planning and other difficulties, the main

burden lies on the state. If economic development does not provide the necessary resources, the state budget is insufficient to sustain the system in the long run.

In some more developed nations the government opted for capital-based (defined contribution) systems without pooling risks. Each individual pays into his or her own account for pension, health care etc. This system offers certain advantages, e.g. in terms of financial sustainability, but there are also drawbacks. The responsibility lies almost exclusively with the individual and the family, with the state offering little support. The system works reasonably well in times of full employment. However, in economically difficult times with higher unemployment, social assistance can be inadequate. The necessity of at least partly pooling risks and providing transfer payments becomes apparent. It has to be kept in mind, as the authors of the Malaysia country study put it, that 'development creates the need for formal social security provisions'.

3. *No solutions have been found so far in order to deal effectively with the informal sector.*

Usually, informal sector workers are neither covered by any social insurance or savings scheme, nor are social assistance schemes, such as benefits and transfers, sufficiently developed and accessible to provide adequate protection for them. There are conflicting statements according to whether the informal sector should be integrated into the formal one. Obviously, simple registration of informal sector workers is insufficient. However, integration/inclusion seems to become necessary once numbers grow in any successful voluntary scheme. At the same time, trust into formal institutions has to be gradually developed and increased, so that savings and insurance schemes become a more valid option.

Some positive experiences have been made with micro savings and small credit schemes. However, most countries are still in the experimenting stage. As a consequence, much of the responsibility lies with civil-society organizations and their networks. The government has to acknowledge this fact by giving some financial support to NGOs. Generally, more visibility is needed to change the image of the informal sector.

Appendix

All country studies are structured according to the following list of topics:

Abstract

1. Institutional Framework

- 1.1 General Political, Social, and Economic Framework
- 1.2 Availability and Quality of Data
- 1.3 Existing Institutional Framework
- 1.4 Government Support
- 1.5 Traditional and Contemporary Perception of the Social Protection System

2. Review of the Existing System

- 2.1 Social Protection in the Formal (Organized) Sector
 - 2.1.1 Categorization of the Formal Sector
 - 2.1.2 Social Insurance and Savings Schemes
 - 2.1.3 Social Assistance and Services: Benefits and Transfers
 - 2.1.4 Others
- 2.2 Social Protection in the Informal Sector
 - 2.2.1 Categorization of the Informal Sector
 - 2.2.2 Problems and Features of the Informal Sector
 - 2.2.3 Social Assistance and Services: Benefits and Transfers
 - 2.2.4 Voluntary Schemes: Savings, Credit and Micro-Insurance Schemes
 - 2.2.5 Others
- 2.3 Labour Market Policy
 - 2.3.1 Active Labour Market Policy
 - 2.3.2 Passive Labour Market Policy

3. Assessment of the Effectiveness and Efficiency of the Existing System

- 3.1 Coverage
- 3.2 Feasibility
- 3.3 Financial Sustainability
- 3.4 Gender Equity
- 3.5 Costs of Administration
- 3.6 Targeting
- 3.7 Accountability & Transparency

4. Development of Innovative Programmes and Alternative Social Protection Schemes

5. Policy Recommendations

The Relevance of Social Security for Economic Development

Michael von Hauff

1. Introduction

The right to social security is a human right. According to Articles 22 and 25 of the 'Universal Declaration of Human Rights' enacted by the United Nations, access to social security is a basic right. The 'Social Security (Minimum Standards) Convention 102' adopted by the International Labor Organization (ILO) in 1952 also prescribes minimum standards for benefits in the important areas of social security. To date, most OECD countries have ratified the agreement, some countries in Latin America and Africa, but just one country in Asia. Furthermore, the World Summit for Social Development in Copenhagen in 1995 emphasized the establishment and expansion of a social security system as an essential component of widespread social development and the fight against poverty. The political declaration of the summit contains the undertaking 'to develop and implement policies which ensure that all persons enjoy adequate economic and social protection in the event of unemployment, sickness, during motherhood and child-rearing, in the event of widowhood, disability and in old age.' These are, of course, only a few stages in the efforts to strengthen or establish social security systems in developing countries.

The range (degree of cover), degrees of intensity (what, for example, is covered by health insurance in the event of sickness?), and efficiency of social security systems in developing countries differ widely (Jäger *et al.* 2001). While, for instance, statutory social security coverage in sub-Saharan Africa and South Asia lies between 5% and 10% and in Latin America lies roughly between 10% and 80%, coverage in Southeast and East Asia varies between 10% and 100%. The goal cannot be to develop a universal or uniform concept of social security. Rather, each country must develop its own system of social security aligned with the economic, social and cultural conditions of the country.

Since the early 1980s, the topic of social security has been gaining in importance in discussions and collaboration in the field of development policy. Since the end of the 1980s, national and international development organizations have also been increasingly involved in the reform and further development of social security systems. There are many reasons for this trend. Particularly important are the economic and demographic structural changes which have led to changed conditions in many developing countries: e.g. increasing expectations of the working population in economically expanding sectors, a decline in poverty in the informal sector, changes in the age structure of the population as a result of longer life expectancy, the adjustment of social security systems in the process of transformation from a planned to a market

economy and improvement or expansion of existing social security systems that are often inconsistent or inefficient.

In summary, different risk factors in a country may include financial/economic crises, structural adjustment processes, an ageing population, high unemployment, and the transition to market economies. An efficient and effective social protection system will support both social stability and social justice as well as economic development. These relationships will be looked at in more detail and explained in the following sections.

2. The Functions of Social Security

Every person is faced with social problems and risks, whether he or she lives in a highly developed or an economically less developed country. The typical problems and risks are sickness, accident, unemployment, need for nursing care in old age, poverty and other forms of social plight. As a rule such problems require material and non-material help from society, and measures and expenditures for social security are intended to mitigate or provide cover for these problems and risks. Such provisions thus have a lasting influence on the situation in life of the vast majority of the populations of industrial countries.

While most developing countries claim to provide broad coverage of social risks, their social security systems are scarcely sufficient. This also applies to the ASEAN states. Social security systems are especially found in the formal sector, where they exist in the form of social welfare insurance, state payments into welfare schemes and labor market policies. In the informal sector and the subsistence economy, in contrast, there is generally no protection against social risks, whether as social welfare insurance or state payments into welfare schemes. In the informal sector and the subsistence economy, traditional and other forms of social security frequently exist, providing existential security for many people. However, they are increasingly being pushed aside by advancing modern social and economic structures. The problem of providing existential security for the people concerned is thus one that is presenting itself with increasing frequency and urgency.

The forms of social security that exist in the formal sectors of the various developing countries differ qualitatively and quantitatively. The following questions are therefore particularly relevant:

- which risks are covered;
- are the risks covered adequately, i.e. is the pension large enough to live on;
- do the individual types of social security and schemes harmonize with each other;
- what distribution or redistribution effects are triggered by social security schemes?

One crucial issue when establishing and extending social security systems in developing countries is how the function of social security is defined. On this point, Leliveld arrives at the following definition: "Social security is firstly the protection, by society, of individuals or social groups against a fall in their standards of living as a result of

temporary adversities, and secondly, the amelioration, by society, of those standards of living of individuals or social groups which are below an acceptable minimum level” (Leliveld 1991, p. 210). This definition underlines the significance of social security’s dual function. On the one hand, it is concerned with preventing a deterioration in certain social groups’ living conditions and, on the other hand, with improving the living conditions of social groups if these do not satisfy the minimum basic criteria. In the end, this signifies that the functions of social security are extended to include those described below.

FUNCTIONS OF SOCIAL SECURITY IN DEVELOPING COUNTRIES

The function of social security is to guarantee people in developing countries an effective contribution to the sustained satisfaction of their basic needs by improving their standard of living which does not conform to an acceptable minimum level. This is the only way to make it possible for those affected to be relieved of the threat to their existence.

Social security also has the function of guaranteeing protection against a worsening of their living conditions, which is brought on by life contingencies and which cannot be overcome by the individuals themselves (von Hauff and de Haan, 1997, p. 61).

In this section, I have shown that the critical task of establishing and designing a system of social security is the responsibility of the state. This system has to protect the population against social risks and to ensure an adequate standard of living. However, it is often forgotten in this context that social security can also make a positive contribution to the economic development of an industrialized or developing nation, as the following section shows. Social security should therefore always be a central component of economic development policy.

3. Social Security and Economic Development

From the beginning of the 1980s, existing welfare states came in for even stronger criticism, especially in Europe. This criticism was in many instances aimed at the extension of social security systems, which was felt to be hampering the economic performance and competitiveness of developed economies. This frequently led to the conclusion that social security and economic performance/positive economic development fundamentally contradicted each other, even though this contention withstood neither theoretical nor empirical examination (Lampert and Althammer, 2001, p. 435 ff. and Jaufmann, Mezger and Pfaff, 1995).

In this context, a distinction has to be made between the reasons for its economic utility on the one hand and the effectiveness or efficiency of welfare states on the other. Undoubtedly, the effectiveness and efficiency of both welfare states and social security systems has to be proven. If welfare states or social security systems do not

satisfy effectiveness or efficiency criteria, reforms will be necessary (von Hauff and Sauer, 2001). The following comments are only concerned with the fundamental critique of the welfare state and social security systems outlined briefly above.

Critics often forget that, in many advanced economies and developing countries in the past, government social security policy

- made an important contribution to achieving ideals and goals such as social justice and individual freedom, and thus promoted social peace and social security;
- prevented or compensated for the negative effects of privately-owned means of production (national economic utility of social security); and
- via an active family and education policy to create human capital, created a precondition for strengthening micro- and macro-economic productivity, thus contributed to long-term economic performance (Kaufmann, 1997, p. 35 f).

Many critics have thus misjudged or neglected the historically significant achievements of state-run social security in structuring and realizing a humane society, in which the level of social welfare is high (Lampert and Althammer, 2001, p. 436 ff.). Abramovitz makes these achievements more precise when he writes: "The enlargement of the government's economic role, including its support of income minima, health care, social insurance, and the other elements of the welfare state, was, up to a point, a part of the productivity process itself" (Abramovitz, 1981, p. 2). The following comments will focus on substantiating the economic significance of government-sponsored social security for the economic development of developing countries.

Justification in economic framework theory and policy: the establishment and increasing complexity of social security legislation and its implementation in truly useful material rights and opportunities is a crucial precondition for the creation of welfare states, based on individual freedom, whose aims are those already mentioned above: personal freedom, social justice and social security for a great majority of the population. The principles on which it is based are generally ideal types, and to this extent reality always requires and is capable of improvement. Lampert and Althammer deduce the following positive economic effects from this (Lampert and Althammer, 2001, p. 437 ff.):

- Avoidance of social costs and safeguarding of labor potential: labor protection laws, health and pension insurance policy and education and training policy play a quite significant role in avoiding social costs and safeguarding efficient labor potential.
- Stabilization of social and economic order: Special emphasis must be given to the significance of institutionalizing the labor market and in-company and cross-company relationships between employers and employees. This plays an important role in social peace and thus in stabilizing the social and economic order.

Macro-economic justification: Social security policy plays a role in stabilizing economic development, because it stabilizes demand for consumer goods by making it constant (Vobruba, 1998, p. 37 ff.). In this connection, we speak of in-built stabilizers that function under certain conditions. Beveridge drew attention to this connec-

tion as early as 1942, when he wrote: “If unemployment benefits are made as high as is at all compatible with the preservation of a fluid labor market and the incentive for the individual to find work rather than enjoy himself, then the purchasing power of the working classes will be protected when a crisis begins, and the violence of depression will be reduced” (Beveridge, 1943, p. 252). Pfaff has empirically confirmed this connection for certain European countries (Pfaff, 1989, p. 131 ff.).

Finally, protection from and promotion of economic and social structural change should be mentioned. Here, legislation like the revised German Employment Promotion Law can play a major role in cushioning and reducing imbalances in the labor market. This allows adjustment costs to be reduced, for example by retraining schemes for private households and companies. Social security benefits become socially acceptable in this way, and reduce resistance to structural change (Lampert and Althammer, 2001, p. 438). Whether and to what extent these economically positive effects of social security are felt will mainly depend on the way the schemes are structured.

4. Conclusion: The Increasing Relevance of Social Security for Developing Countries

Since the beginning of the 1980s, the topic of social security has increasingly been a subject of development policy debate. Guhan, one of the outstanding experts in social security in the context of developing countries, gives three reasons for this (Guhan, 1994, p. 35 ff):

- The crass dichotomy between the social security systems of developing and developed countries has increasingly been regarded as unsatisfactory. In addition, there has been increasing awareness within developing countries of the difference in the way in which those employed in the formal sector and those who are self-employed in the informal sector have access to social security.
- It has increasingly been recognized that schemes to combat poverty cannot guarantee any adequate or prompt protection from various forms of impoverishment.
- The most obvious reason was the increasingly critical appraisal of the role of social safety nets. The aim of social safety nets had been to cushion the negative effects of World Bank structural adjustment programs. However, these did not result in any sustained social security, particularly for those living in poverty.

There is no doubt that the extreme heterogeneity of developing countries calls for a wide variety of concepts and schemes. This is particularly important for the ASEAN countries. Among other things, this heterogeneity is determined by

- the level of economic development;
- socio-culturally conditioned social structures;
- the qualification and efficiency of government institutions; and by
- the networks and power structure of lobby organizations and interest groups.

For the following discussion and assessment it is important to realize that most developing countries have only incomplete social security systems. They are to be found above all in the formal sector, in the form of social insurance, state social benefits and employment policies. In the informal sector and subsistence economy, in contrast, there is normally no state insurance against social risks (von Hauff and de Haan, 1996, p. 72 ff.).

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Social Protection in Indonesia

Tulus T. H. Tambunan and Bambang Purwoko

Abstract

During the 'new order' period¹ up to mid-1997, the Indonesian economy had been performing very well. The annual growth rate of GDP and external investor confidence were high, overall inflation was low, and foreign direct investment was robust. However, by the end of 1997 and in 1998 Indonesia was in a deep financial crisis. In 1998, the country experienced a contraction of 13.6% in GDP and only a very small positive growth of 0.12% in 1999. In 2000, the growth rate of real GDP was 4.8% and 3.4% by the last quarter of 2001.

By mid-1997, the incidence of poverty was about 10.1% of the population, and in 1998, as a consequence of output decline, the incidence of poverty was estimated to have increased to 14.1% in 1999, or about 29 million people (World Bank, 1998). However, based on the National Social Economic Survey (SUSENAS) in 2000 from the Central Bureau of Statistics in Indonesia (BPS) and using different measurement methods, the poverty rate in 1998 was about 23.6% (BPS, 2000b).

Historically, the social security system in Indonesia was started in 1977 with the introduction of a social security program for workers known as ASTEK (Employees' Social Insurance/Asuransi Sosial Tenaga Kerja). In 1992, the government issued a Social Security Act for private employees, including state companies, and ASTEK was changed to JAMSOSTEK (Social Security for Private Employees/Jaminan Sosial Tenaga Kerja). JAMSOSTEK is a compulsory social protection scheme for employees against social hazards, such as employment injury, death, sickness, and old age.

The existing social security system in the country has several shortcomings. One of these is the JAMSOSTEK scheme's coverage of only employees in the formal sector. Also, not all JAMSOSTEK schemes comply fully with the law and government regulations on employee's social security or with international standards (as defined by the International Labor Organization, ILO).

In comparison with other Asian countries such as Singapore, Thailand and the Philippines, government spending on social security in Indonesia is relatively small. For instance, in 1996, spending on employment injuries, survivors, sickness and health, and old age on average was not higher than 5% of GDP.

¹ After the unsuccessful coup d'état by the Indonesian Communist Party in 1965, Soeharto took power from Soekarno and became the second president of Indonesia. Soeharto's period is known as the 'new order' era (*orde baru*), which lasted until May 1998 when the reform (*reformasi*) started.

Recently, several ministries in Indonesia, i.e. the Ministry of Health (DEPKES), the Ministry of Social Welfare (DEPSOS), the Ministry of Manpower and Transmigration (DEPNAKERTRANS), and the Ministry of Finance (MENKEU) have been working on the reform of the social security system, including the JAMSOSTEK scheme. For this purpose, the government has proposed a new law that will support the reform. Under that new law PT² JAMSOSTEK will become a Trust Fund. The proposed law is currently being processed.

* The exchange rate of the rupiah against the US dollar at the time of writing was US\$1 = Rp.10,500.

1. Institutional Framework

1.1 General Political, Social, and Economic Framework

General Background

The total population in Indonesia by mid-2000 was 203.5 million people, with a growth rate of 1.35% during 1990–2000, and a fertility rate of 2.7 in 1998 (see Table 1). The total population figure is the preliminary result of the year 2000 Population Census which encountered some obstacles, such as riots in some parts of Indonesia. The census for these regions could not be conducted completely or in some cases at all, so the total population in these regions must be estimated.

Table 1: Population and Growth Rate of Population in Indonesia, 1980–2000

	1980 ¹	1990 ¹	1995 ²	2000 ³	1980–1990	1990–1995	1990–2000
Population (thousand)	147,490	179,379	194,755	203,456			
Growth rate of population (%)					1.98	1.66	1.35

1 Population Censuses

2 1995 Inter-censal Population Survey (SUPAS)

3 Preliminary result of 2000 Population Census (SP)

Source: BPS (Central Bureau of Statistics in Indonesia/Biro Pusat Statistik).

In 1980, the number of migrants totaled 3.7 million people, and increased to 4.3 million in the period 1990–1995. Cumulatively, up until 1980, the total number of migrants was 11.4 million people, increasing to 17.8 million in 1990. The level of urbanization in 1995 was 32.53%, and it was expected to increase in 2000 to 36.46% (see Table 2).

The infant mortality rate has declined from 46‰ in 1995 to 43‰ live births in 1998 and the maternal mortality rate was 390 per 100,000 deliveries. Currently, life expectancy is more than 65 years.

2 PT stands for *perseroan terbatas*, which means a corporate legal entity whose ownership of property and financial assets is limited by the number of shareholders. In the case of JAMSOSTEK, it refers to a government corporate legal entity operating on a profit-oriented basis.

Table 2: Population and Projected Urbanization in Indonesia, 1990–2020

Year	Population (thousand persons)			Level of urbanization (%)
	Total	Urban	Rural	
1990	180,383	51,932	128,451	28.79
1995	195,755	63,679	132,076	32.53
2000	210,263	76,662	133,601	36.46
2005	223,183	90,344	132,838	40.48
2010	235,110	104,577	130,533	44.48
2015	245,388	118,782	126,595	48.41
2020	253,667	132,465	121,202	52.22

Sources: BPS, 1995; and Ananta and Arifin, 1994.

The illiteracy rate has declined over the period 1995 to 1999 for adult males from 10.3% to 8.5% and for adult females from 22.2% to 18.7%. In 1995, net school enrollment as a percentage of the population, for primary and secondary education respectively, was 98.8 and 52.9; the rate for females for primary and secondary levels was 97.9% and 50.5%, respectively. However, the figures for higher education are much lower; less than 1% of the population has university degrees. Overall, most of the country's economically active population has only primary education (see Table 3).

Table 3: Economically Active Population by Educational Attainment in Indonesia, 2000

Educational attainment	Persons
1. No schooling	7,128,964
2. Primary school not completed	14,622,078
3. Primary school	35,507,292
4. Junior high school	15,363,010
5. Senior high school (general)	13,737,140
6. Senior high school (vocational)	4,8143,989
7. Academy	2,143,989
8. University	2,294,699

Source: BPS, 2000a.

Macro-economic Framework

In Indonesia's economy the state plays an important role. The role of the state is stated explicitly in the Basic Guidelines to State Policy (GBHN, 1999), which underline the policy direction on national economic development for the period 1999–2004. It states that the economic system in Indonesia is the 'people's economic system', which is based upon the market mechanism with fair competition. At the same time it emphasizes economic growth, justice, and gives priority to quality of life, social, environmental and sustainable development.

In 1998, the country experienced negative growth of almost 14%, but GDP was positive in 1999 and reached 3.4% in 2001. The inflation rate was almost 78% in 1998, and de-

clined to 8.16% in 2001. The national income per capita in 1997 was over US\$ 1,000, dropped significantly in 1998, and since 1999 has started to improve again (Table 4). In the 1980s, the Indonesian economy was still dominated by agriculture, but in 2000, the GDP share of manufacturing was 26%, while that of agriculture was almost 17%.

The economy of Indonesia is dominated by small- and medium enterprises (SMEs). These enterprises are especially important in terms of employment creation, as they employed more people than large enterprises (LEs), including foreign multi-national companies operating in the country.

Table 4: Some Important Macroeconomic Indicators of Indonesia During and After the Crisis

Indicator	1997	1998	1999	2000	2001
Rate of growth of real GDP (%)	4.5	-13.6	0.12	4.8	3.4 ¹
Income per capita (US\$)	1088	449	768	800	—
Rate of inflation (%)	11.1	77.63	0.27	9.35	8.16 ²

1 First quarter

2 Jan-Sept (cumulative)

Source: BPS (Statistical Year Book of Indonesia), various years.

The percentage of informal employment to total employment in urban areas was about 46% in 1999 (Irawan *et al.*, 2000). The urban informal sector has been playing a pivotal role in both employment creation and income generation, especially for women (ILO, 1999a,b). The share has increased since the crisis, as many employees in the formal sector (e.g. banks, industries, and services) have lost their jobs (ILO, 1999a).

Labor Market Structure

In 2000, the working age population totaled 141.2 million males, while the labor force totaled 95,651,000 males, and the unemployment rate was 6.1%. The labor force participation rate has increased from 67.22% in 1999 to 67.76% in 2000. Out of 89.8 million working people, around 45.28% work in the agricultural sector. The other sectors with large employment include trade, hotel and restaurant (20.58%), manufacturing industry (12.96%) and services (10.66%) (see Table 5).

Table 5: Employment by Sectors, 2000

Sector	Persons
Agriculture, forestry, hunting, fisheries	40,676,713
Manufacturing industry	11,641,756
Construction	3,497,232
Trade, hotel & restaurant	18,489,005
Transportation, storage & communication	4,553,855
Financing, insurance, real estate & business services	882,600
Public services	9,574,009
Others	522,560
Total	89,837,730

Source: BPS, 2000a.

Poverty and Distribution of Income

Between 1980–1996, the number of individuals living below the official poverty line dropped dramatically from 42.3 million (28.6%) to 22.5 million people (11.3%). But as a result of the financial crisis, the number increased again to 24.2% in 1998, and dropped to 23.6% in 1999. During the period between 1996 and 1999, the poverty gap index increased from 1.6% to 3.8% in urban areas and from 1.8% to 4.8% in rural areas. In the same period, the poverty severity index increased from 0.4% to 1.1% in urban areas and from 0.4% to 1.4% in rural areas.

Based on expenditure data, inequality has increased during the period 1990–1996 and declined during 1997–1999. Accordingly, in 1993 and 1996, the Gini index was recorded as high as 34.0% and 35.6% respectively, and in 1998 and 1999 was 31.6% and 31.1% respectively.

Allocation of Budget

The state budget (APBN) consists of internal revenues, which are mainly tax revenues, and external resources, i.e. foreign aid and foreign loans, on the one hand, and routine and development expenditures on the other hand. For the year 2002, education is targeted to receive routine and development expenditures of Rp.4,511.5 and Rp.11,552.8 billion, respectively; both are higher than the realized budget for 2001. In social welfare, health care, and women's empowerment, the budgeted routine and development expenditures for the year 2002 are Rp.667.7 and Rp.4,304.1 billion respectively; both are higher than the realized budget for 2001. However, in percentage terms, it is only 0.3% and 9.0% respectively of the total national budget for 2002 for routine and development expenditures.

In Indonesia, social security contributions and benefits are kept outside the state budget; they are administered by state-owned institutions or companies outside governmental departments (INSSA, 1995). This is with the exception of social assistance, including social rehabilitation, of which the main aim is to alleviate poverty. Social assistance is the responsibility of DEPSOS with financing from the state budget.

Political System and Political Situation

Political reform in Indonesia in the form of freedom of political parties and general elections had actually begun with the resignation of President Soeharto. After Soeharto stepped down in May 1998 and was succeeded by B.J. Habibie, a general election was held and the People's Consultative Assembly (MPR), formed chiefly by newly-elected members, chose the president and vice-president by majority vote for the first time since the country's independence. During this general election, President Habibie failed to be re-elected; and Abdurrahman Wahid, alias Gus Dur was elected as Indonesia's fourth president, and Megawati Soekarnoputri, leader of the Indonesian Democratic Party of Struggle (PDI-P/Partai Demokrasi Indonesia-Perjuangan), was elected as vice-president.

But, after almost two years, conflict between Gus Dur, the MPR and the House of Representatives (DPR) has forced him to step down. With President Megawati Soekarnoputri, who succeeded Gus Dur, most Indonesians had hoped that the country could at last experience political and social stability and that Indonesia could proceed with recovery and further development.

As with Gus Dur in the first year of his presidential period, the new government of Megawati is also built on a strong majority. Her cabinet consists of ministries from several parties such as PDI-P, GOLKAR (Golkar Party/Partai Golongan Karya), PKB (National Awakening Party/Partai Kebangkitan Bangsa), and PAN (National Mandate Party/Partai Amanat Nasional). These major parties influence daily politics in Indonesia. However, the first hundred days of Megawati's presidency show that the conflict between the political elite seems to be never-ending. The new government is also acting to reduce social disturbances, especially those with nuances of disintegration and *sara* (matters pertaining to ethnicity, religion, race and relationships between different groups of society), and Islamic fundamentalists, as well as tackling the problem of economic recovery. However, the ability of the government to deliver the much-hoped-for turn around is still to be determined.

1.2 Availability and Quality of Data

To have a reliable social security system in Indonesia, comprehensive information on population, real income per capita, income distribution, poverty, labor market characteristics, the size of the informal sector and individual expenditure on social welfare, etc. is required. For some of these variables, data are available in Indonesia. For population, the main source of demographic data is obtained from the Population Census (SP). Compared to the previous censuses, the SP 2000 carried out the complete enumeration method and covered more variables. In addition to the SP, BPS also conducted the Inter-censal Population Survey (SUPAS), which is designed to process demographic data between two censuses.

The data collection on labor force is held by BPS through censuses and surveys. The National Labor Force Survey (SAKERNAS) is a survey specifically aimed at collecting information on manpower statistics. Formerly, labor statistics were collected through other surveys, such as the National Social-Economic Survey (SUSENAS), SP, and SUPAS. During 1986–1993, SAKERNAS was conducted quarterly in all provinces.

With respect to income (GDP), the method used to estimate national accounts statistics follows the standard guidelines set up by the United Nations known as the 'System of National Accounts'. The implementation of the method, however, has been adjusted according to Indonesian socio-economic conditions.

With respect to poverty and inequality, in the absence of income data, expenditure is commonly used as a proxy for income. This lack of data on income plus measurements used for the poverty line may not give the real picture of poverty and income distribution conditions in Indonesia.

Information for the informal sector is derived from data on the labor market. The distribution of the labor force by employment status may indicate the distinction between formal sector and informal sector. The status of the employer (i.e. entrepreneur with fixed employees) and employee indicates the formal sector. The status of the self-employed with or without assistance by family members (family workers) and temporary helpers indicates the informal sector. Although this distinction has a number of shortcomings, it does give an indication of the size and characteristics of the informal sector in Indonesia.

In summary, like all statistics generated in developing countries, measurement errors and arbitrary changes in definitions affect the indicators compiled here. Hence, a good deal of care and caution need to be exercised in interpreting the numbers.³

It would help if Indonesia had data on individual expenditure on social security protection under the different insurance categories. In the future, SUSENAS should also include questionnaires on the proportion of expenditure paid for different social protection schemes. With this data, one could get an idea of the participation rate of the population in existing social security schemes and determine where there is need for improvement.

1.3 Existing Institutional Framework

In 1979, the Indonesian Tripartite Body (ITB), which is a forum of communication and consultation, was established in order to achieve the objective of so-called *Pancasila* Industrial Relation,⁴ comprising representatives of the government, workers, and employers. The government is represented by DEPNAKERTRANS, the workers by SPSI (All Indonesian Workers' Union), while the employers are represented by APINDO (Indonesian Employers' Association).

Up to now, as a result of good cooperation between the three institutions, the ITB has already issued many joint decrees, some of them followed by government policies, such as presidential decrees and ministerial decisions. Both SPSI and APINDO have strong influence in the preparation or formulation of such decrees. One example of a joint decree that has been issued as a result of strong influence by the trade union (SPSI) is the issue of Law No.3, 1992 concerning the Workers' Social Security Program, in which the coverage for workers has been expanded and improved. As a result, the total number of workers being covered by the state-run employees' social insurance scheme (ASTEK) in 1993 increased significantly to 5,213,757 from 2,978,069 in the beginning of 1988.

The SPSI came into existence in 1973 when 21 industry-based trade unions merged to form the Indonesian Trade Union Federation (FBSI). In 1985, during the III FBSI

3 For a useful review of strengths and weaknesses of available labor market data in Indonesia, see Sigit (2000a, b).

4 *Pancasila* is the philosophical basis of the Indonesian state. It comprises five inseparable and interrelated principles: belief in the one and only God, just and civilized humanity, the unity of Indonesia, democracy guided by the inner wisdom in unanimity arising out of deliberations amongst representatives, and social justice for the whole population of Indonesia.

National Congress the federated structure of FBSI was changed to a unitary organization and renamed the SPSI. The 21 trade unions were reorganized into a departmental structure under the SPSI. At the second national congress of the SPSI in 1990, the existing departments of the SPSI were reorganized to provide for 13 sector-based trade unions, which were affiliated to the SPSI (Simanjuntak, 1995).

In 1994, a new Ministerial Regulation No. 1 provides for workers at plant level to establish their own union without necessarily affiliating it to the SPSI. This provision permits broader participation of workers in a union. The shop floor or the plant-level union and the SPSI have the same rights and protection to negotiate with an employer for a collective labor agreement (Simanjuntak, 1995). However, in reality, during the Soeharto period the right of workers to organize strikes or demonstrations was very limited.

In 1998, as the political reform had also affected the trade union movement in Indonesia, SPSI disintegrated into 30 trade union federations, and recently there were about 60 trade union federations and five confederations. Besides trade unions and APINDO, other important and influential pressure groups are the Indonesian Chamber of Commerce and Industry (KADIN), and some business (commodity-based) associations, non-governmental organizations (NGOs) and civil society organizations (CSOs). Especially since the crisis was followed by the reform (*Reformasi*), the influences of KADIN and business associations on government policies have become much stronger than before. Now, partly because of pressure from the World Bank, IMF (International Monetary Fund) and other international institutions with programs in Indonesia, NGOs and CSOs are more deeply involved in government decisions on poverty alleviation, environment, human rights, women's empowerment, protection of children, development of SMEs, regional autonomy, and political and social issues. Some multinational companies also have strong lobbying power with the Indonesian government such as PT Free Port in Irian Jaya and Caltex in Riau.

1.4 Government Support

Since the emergence of the economic crisis in 1997, the government has started to improve conditions of social security in the country. The willingness of the government to improve the existing system of social security into one complying with international standards is stated in the National Development Program 2002. In this respect, MENKEU is going to develop policy recommendations for changing existing laws and regulations to give better protection to users of social insurance services, for improving the performance of social insurance companies and providing employees in the informal sector with greater access to social insurance schemes. The government has also recently proposed a new law to change the legal status of PT JAMSOSTEK to a trust fund.

1.5 Traditional and Contemporary Perception of the Social Protection System

In Indonesia, social security is based on the noble values of *Pancasila*, especially those related to the principles of solidarity and mutual-help (*gotong royong*) both in

the sense of intra-generation as well as inter-generation relationships. Although individually the performance principle may dominate the urban community, solidarity, mutual assistance and justice are important values in Indonesian society. Even though insurance is not yet deeply rooted in the life of the Indonesian people, the spirit of mutual assistance prevailing in the community constitutes a solid basis for both horizontal (mutual help between members of different ages in the same income groups) and vertical cooperation (mutual help between different income groups), underpinning the basic philosophical requirements for an effective social security system (INSSA, 1995). The cultural values and social expectations of the people are thus likely to create a positive environment for the development of a good social protection system in Indonesia. The Indonesian social culture revering familial relationships can promote the operational mechanism of social protection.

In reality, however, the social security system in Indonesia is less established than in many other countries, even in comparison with many other developing countries. This is very likely due to the economic, political and social environment as well as the people's attitude towards the government. Some studies conclude that the political and social environment for the development of a social security system in Indonesia is not very conducive at this time.

Alkatiri *et al.* (2000) offer the following reasons for this: First, the general public's or even the policymakers' understanding of SHI (Social Health Insurance) is very limited. SHI is being understood as a program for the poor, based on charity or at the expense of the government budget.⁵ Second, social insurance involves mandatory enrollment. During the euphoria of democracy after the overthrow of the Soeharto regime, it was difficult to sell (politically) compulsory insurance. Compulsory insurance is being understood as too much control of the central government and restriction of freedom (understood as a key aspect of democracy) of the population. Finally, the existing SHI schemes (ASKES/Health Insurance Scheme for Public Servants and JAMSOSTEK), which will be discussed below, are being perceived as not providing good services.

Besides the above factors, the contrast between the low percentage of waged/salaried workers, the average low income of workers and the necessary premium to implement sustainable insurance schemes is an important economic factor that may also hinder the expansion of the social security system in Indonesia. Most of the population, especially those in low-income employment, expects that basic protection benefits should be fully provided by the government.⁶ However, as mentioned earlier, the people's negative attitude towards the government because of corruption

⁵ This perception was derived from interviews with several relevant government officials.

⁶ In contrast, among higher income employment there has been greater demand for health insurance as can be seen from the growth of the private health insurance market in the country (Alkatiri *et al.*, 2000). Currently, it is estimated that almost 90% of the population by the end of the 1990s did not have adequate health insurance (Thabrany and Pujianto, 2000). In 1990, the World Bank (1993) estimated that the proportion of the population with health insurance was 13%. In 2000, it is estimated that only about 15% of the population have some sort of health insurance (Alkatiri *et al.*, 2000).

may hinder many from participating in the scheme, even though the contribution requirement is reasonable for them.⁷

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

In Indonesia, politically as well as economically, more attention has always been paid to the formal sector. It generates export revenue and tax revenue for the state. This sector is generally considered to be more productive than the informal sector, as the GDP share of the former is always much higher than that of the latter.

2.1.1 Categorization of the Formal Sector

The formal sector in Indonesia can be categorized based on the following points.

First, it is dominated by medium and large firms (MLEs), including state-owned and foreign companies. Second, the largely well-qualified workers in the sector are remunerated in the form of regular wage payments and employees generally have the opportunity to join a trade union or to form an association of workers. In Indonesia, apart from sector-based trade unions and the employers' association APINDO, there are also numerous workers' unions at plant level in many industries. Moreover, wages are protected legally by the government through so-called regional minimum wages (UMR). Third, working conditions in this sector are generally legally protected; though in reality many companies/industries, especially the small ones, are found to have bad working conditions. Fourth, its market structure also exhibits specific characteristics, e.g. prices of some important commodities are often controlled and partially protected against foreign products by import duties or taxes, and the products are primarily purchased by those in the middle and upper income brackets. Fifth, this sector is more capital intensive than the informal sector, which leads to higher productivity and higher profits and income in the formal sector. Finally, the formal sector is clearly privileged by the state. This applies also to the area of social security. The employees do not only have a higher and regular income, but are also protected by social security measures.

Before the crisis, sectors with high growth rates of output were sectors such as the manufacturing industry, construction, banking, trade and tourism. In manufacturing, MLEs had higher productivity and a much larger contribution to GDP than micro and small enterprises (MSEs) but these sectors had practically collapsed during the crisis that led to increased unemployment. On the other hand, MSEs in the informal sector have proved themselves by demonstrating the ability to survive the crisis, and many were even able to grow amid the crisis.

Currently, the main problem of the formal sector in Indonesia is therefore how to recover quickly, at least back to its condition before the crisis, and to face the coming

⁷ This is especially the case for SHI. The economic factor may hinder initiatives to expand SHI.

era of AFTA as the competitiveness of the formal sector in Indonesia is still low (WEF, 2001).

2.1.2 Social Insurance and Savings Schemes

Indonesia's social security system has most of the types of benefits of social security systems around the world. It has a benefit payable upon old age, death, permanent disability, work accidents and occupational diseases, and it also has a health-care system. A compulsory health insurance scheme for public servants (ASKES) has existed since 1968. In the 1970s, three separate programs were introduced to provide income security to private sector workers and employees of state enterprises (ASTEK), public servants (TASPEN), and members of the armed forces (ASABRI). Indonesia also has social insurance programs for the general public, i.e. JASA RAHARJA.⁸ However, Indonesia does not have cash sickness allowances, maternity allowances, family allowances, and unemployment benefits, which are part of the social security system of many other countries.

Historically, the social security system in Indonesia was started in 1977 based on Law No.33 by introducing a social insurance for workers in the formal sector (i.e. private and state-owned companies), known as ASTEK (Employee's Social Insurance/Asuransi Sosial Tenaga Kerja). The aim was to provide employment accident insurance, a provident fund, death insurance and health insurance. The schemes were administered by PT ASTEK, a state-owned company (*persero*). In 1992, Indonesia enacted a major reform of its social security system, as a new social security law was adopted (Act No.3, Employees' Social Security of 1992).⁹

Figure 1: Indonesian Social Security System

Coverage	Schemes	Type of program	Employee	Government/ employer	Benefits	Institution
Government Employees Law No. 8 Year 1974. Basic Government Personnel Policy. Article 10: Government Employees are required to participate in joint social insurance	Civilian Presidential Decree No. 8 Year 1977	TASPEN Govt. Reg. No. 10 / 1963 revised into Government Regulation No. 25 Year 1981	3.25%	—	Lump sum cash benefits at retirement age, term insurance and cash surrender value before retirement	PT TASPEN Government Regulation No. 15 Year 1963 revised into Government Regulation No. 25 Year 1981

⁸ PT JASA RAHARJA is a state corporation administrating Law No.33, 1964 on the Mandatory Insurance Fund for Passenger Accidents and Law No.34, 1964 on the Fund for Road Traffic Accidents (see Figure 1).

⁹ Also in 1992, the Health Act was passed. JAMSOSTEK introduced the mandatory approach towards health-care insurance, but failed to actually enforce this mandatory system. Under this Act, the Ministry of Health has the responsibility to promote and develop JPKM (Jaminan Pemeliharaan Kesehatan Masyarakat), which literally means Community Health Maintenance Protection / Insurance.

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Coverage	Schemes	Type of program	Employee	Government/ employer	Benefits	Institution
		HEALTH CARE Presidential Decree No. 230 Year 1968 revised into Government Regulation No. 69 Year 1991	2.00%	—	Comprehensive health care	PT ASKES Government Regulation No. 5 Year 1992
		PENSION Law No. 11 year 1969	4.75% Total 1–3: 10.00%	State Budget	Employee pension, widow pension, orphan pension (monthly)	PT TASPEN
	Armed Forces Presidential Decree No. 8 Year 1977	ASABRI Government Regulation No. 44 Year 1971 revised into Government Regulation No. 67 Year 1991	3.25%	—	Lump sum cash benefits at retirement age, term insurance and cash surrender value before retirement	PT ASABRI Government Regulation No. 45 Year 1971 revised into Government Regulation No. 68 Year 1991
		HEALTH CARE Ministry of Defense and Security Decree	2.00%	—	Medical expenses, hospitalization, maternity, medical equipment and eyeglasses	The Armed Forces Health Center and the Health Center and the Health Directorate of the Armed Forces Branch
		PENSION Law No. 5 year 1966	4.75% Total 1–3: 10.00%	State Budget	Member pension, widow pension, orphan pension (monthly)	PT ASABRI
Private Employees Law No. 14 Year 1969 Basic Manpower Regulation, Article 15: The Government is to provide social insurance in which all parties concerned participate.	JAMSOSTEK Gov. Reg. No. 33 Year 1977 enacted into Law No. 3 / 1992	WORK ACCIDENT BENEFIT	—	0.24–1.74%	Transportation, doctor, medicines, hospitalization, disability allowance and death benefits	PT ASTEK Government Regulation No. 35 year 1977 revised into Government Regulation No. 19 Year 1990
		OLD AGE BENEFITS	2.00%	3.70%	Accumulated savings of employee and employer with interest	
		DEATH BENEFITS	—	0.30%	Death benefit before retirement age	
		HEALTH-CARE BENEFITS	2.00%*	3% (single) 6% (family)	Ambulatory care, maternity and hospitalization	
General Public Law No. 33 Year 1974 Law No. 34 Year 1974 Mandatory traffic accident insurance	JASA RAHARJA Law No. 33 Year 1974 Law No. 34 Year 1974	PASSENGER ACCIDENT INSURANCE THIRD-PARTY LIABILITY INSURANCE			Hospitalization, disability and death benefits	PT JASA RAHARJA

* Private sector employees do not pay the contribution, while employees from state-owned companies (BUMN), who joined the JAMSOSTEK, pay 2%.

This law established a new security system known as JAMSOSTEK, effective from July 1, 1993. Under this revised law, the ASTEK scheme was changed to the JAMSOSTEK scheme (Social Security for Private Employees), and broadened with health-care benefits. Regulation No.36 of the Ministry of Finance formally changed the name PT ASTEK to PT JAMSOSTEK. This new program greatly improved the benefits for workers covered by the scheme. It provides basic protection in the formal sector for workers and their families. It provides savings for old age and certain other circumstances, death benefits, benefits for accidents occurring at work or occupational illnesses as well as health-care coverage.

The JAMSOSTEK law mandated all employers with ten or more employees or paying a monthly payroll of not less than one million rupiah for the whole company are obliged to register their employees in the scheme. However, if employers have in place better social protection for their employees from other providers then the employers are exempted from mandatory enrollment for the JAMSOSTEK insurance program.

The most important change under this new law was an increase in the contribution rate for the Provident Fund (the savings program for old age). It is a mandatory savings scheme, where the monthly contribution from the employer and the employee are credited into the account of the employee in which interest (market-based, not government supported) is added annually. The benefits of the scheme are provided for the employee when he reaches the age of 55, or the heirs, in the event the employee dies before that age.

Another important change under this new law was the introduction of health-care coverage for outpatient medical care and hospitalization. The health insurance program, called JPK (Jaminan Pemeliharaan Kesehatan) JAMSOSTEK, covers comprehensive (but limited) health services in kind for employees and their families: (i) ambulatory care through community health centers, general practitioners, and specialists; (ii) in-patient hospital care through general and private hospitals; (iii) maternity and delivery care; (iv) provision for medicines; (v) laboratory examination for diagnostic support; (vi) dental and eye care; (vii) emergency care (Dailey and Turner, 1997).

By law, health-care providers must be paid on a prepayment and capitation payment system (per person). The scheme is financed by contributions from employers, which are 6% of monthly wages for married employees and 3% for singles.¹⁰

The employment accident benefit provides for protection in cases of work accidents and work-related illnesses. The benefits constitute compensation to reimburse employers' expenditure for transportation costs of injured workers, wages during temporary disability, and medical and hospital care. Compensation is also provided for

¹⁰ For all of the presently existing health insurance schemes, co-payments of considerable size are necessary for many services and pharmaceuticals. This in turn makes it difficult even for insured persons to get access to all the services needed. The main obstacle in the development of social health insurance in Indonesia is that the majority of the Indonesian people is as yet uninsured.

invalidity and death due to the loss of income. The scheme is financed by employers' contributions.

The death benefit consists of funeral expenses and cash benefits which are provided for the heirs of an employee who dies before the age of 55. The scheme is financed entirely by the employer. The order of beneficiaries in the payment of death allowance and benefits is as follows: spouse, children, parents, grandchildren, grandparents, siblings, parents-in-law.

Table 6: Schemes and Contribution Rate, JAMSOSTEK

Scheme	Contribution rate (%)			
	Government	Employers	Employees	Total
1. Work injury	—	0.24–1.74	—	0.24–1.74
2. Death benefits	—	0.3	—	0.3
3. Health care	—	3–6	—	3–6
4. Provident Fund	—	3.7	2	5.7
Total	—	7.24–11.74	2	9.24–13.74

Source: Law No. 3/1992 PT JAMSOSTEK.

The distinctive features of JAMSOSTEK as a social security system set it apart from social security systems in the rest of the world in at least three aspects. First, JAMSOSTEK's Provident Fund (old-age benefit), as a defined-contribution compulsory savings scheme paying out lump sums on the occurrence of the first of the three contingencies of invalidity, survivorship and old age, is not only fundamentally incapable of providing adequate income support in retirement, but also allows members to withdraw their accrued balances when unemployed (ILO, 1999c). Second, PT JAMSOSTEK is a profit-making,¹¹ taxable state-owned company that has a monopoly on social security contributions. Finally, there are no tax concessions for Indonesia's social security system, except a deduction for employers' contributions.

Another important feature is that the benefits of the social security system in Indonesia provide only floor protection. Hence, the system provides opportunities for private insurance to cover any additional benefits as required. Due to the fact that the majority of the population in Indonesia is from low-income groups, basic protection benefits should be provided by the government.

2.1.3 Social Assistance and Services: Benefits and Transfers

In Indonesia social assistance, including social rehabilitation, is provided under Law No.6, 1974, on social welfare. This system covers various kinds of assistance: for those who fall victim to natural disasters like earthquakes, floods, riots, social unrest, as well as those who lack abilities to sustain a living, such as invalids, orphans, the aged, indigents, and drug addicts. Social assistance benefits are given in money or in

¹¹ The company makes a profit from the return on investment of the money from contributions.

kind. Social assistance is the responsibility of DEPSOS with financing from the state budget (APBN).

One important component of social assistance in Indonesia is the social safety net (JPS). The government has established the basis of a JPS through the social welfare activities of DEPSOS in coordination with other related departments and through the provision of subsidized health care. In 1998, in response to the crisis, new JPS programs were established, aiming to ensure a basic standard of living for those adversely affected by the crisis (Table 7). Total expenditure of the programs increased from about 1% of GDP in fiscal year 1999 to 1.25% in fiscal year 2000 (World Bank, 2000).

Table 7: Social Safety Net Programs in Indonesia During the Crisis

Program	Activity
Food security	New program of targeted cheap rice distribution (OPK)
Social funds	Community-based programs, including assistance to small-scale industry
Health and education	Back-to-school program launched (provides scholarships for the poorest students and school grants for schools in the poorest communities) Subsidies to maintain prices of essential drugs
Work-fare program	Existing programs expanded and redesigned

Although there is no unemployment insurance or assistance scheme in Indonesia and no system of social assistance under which income support through cash benefits is made to the poor, DEPSOS does have a small scheme to provide temporary cash payments to old persons who have no family or community support. This, however, is very exceptional and only 1,600 persons are currently covered. They receive only Rp.15,000 per month, but payment is made on a temporary basis with the understanding that the beneficiary will subsequently either be supported by his family or the community, and failing this, will be cared for in public residential accommodations (ILO, 1999d).

2.1.4 Others

The government has not yet implemented any other special, unique or innovative programs, apart from those already mentioned above. The only thing that the government has been doing in response to the economic crisis is reforming the social security system, including the JAMSOSTEK scheme. The main objectives of the reform are especially to enlarge the coverage (Table 8). To achieve this goal, the government has proposed a new law that is still being fine-tuned in an ongoing process. The main aims of this new law are to include companies with less than ten employees and to make law enforcement in the implementation of the system possible.

With respect to social health insurance (SHI), the Ministry of Health and Social Welfare is going to establish a new SHI agency at the regional level that provides a comprehensive benefit package on a mandatory basis by the year 2012. This insurance agency is built from human resources drawn from other existing agencies, which are merged into the new organization (Alkatiri *et al.*, 2000).

Table 8: Planned Coverage of Various Parts of the Population, at 2012

Group of the population	Percentage today (2000)	Percentage 2012
Civil servants	100	100
Formally employed	>10	50
Retirees	<10	20
Informally employed	<5	15

Source: Alkatiri *et al.*, 2000.

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

There is still no generally accepted definition of the informal sector. However, the catalogue of criteria developed by the ILO may provide a good guideline. According to this catalogue, activities belong to the informal sector when either: (i) family members work in a business, or economic activities are conducted by non-paid workers (mainly family members); (ii) there are no legal regulations or existing regulations; (iii) there are no regular working times; (iv) most of the workers have low education levels; (v) the work is seasonal, depending of course on the kind of activity; (vi) no electricity is available in the workplace; and (vii) there is no dependency on regular loans.

Heterogeneous forms of employment and heterogeneous forms of income make it particularly difficult to categorize the informal sector. An alternative sub-classification of the sector which would make sense in the context of the social security system is: (i) persons with regular employment who do not enjoy the protection of social legislation or social security systems;¹² (ii) persons who do not have a regular income due to the casual or seasonal nature of the work and who do not fall under the protection of the social security systems; (iii) the unemployed.

In Indonesia, given the available data, the working definition of informal sector employment is defined by BPS to include those workers who are self-employed with or without the assistance of unpaid family members or paid temporary helpers.

2.2.2 Problems and Features of the Informal Sector

The informal sector faces a variety of problems that can be seen as common problems of this sector in developing countries. First, because activities in the informal sector are non-legal (not registered) and hence pay no taxes, they are therefore outside the scope of government policies/regulations as well as labor and social protection. Second, due to their lack of capital, technology and human resources, they often have long working hours to achieve a certain minimum target of production/income amidst poor working conditions. As a result, the productivity and hence income of labor in this sector are low. The low income is also due to the fact that the sector is

¹² This may include workers in the formal sector (companies) without any social protection, as there are still many employers who have not (yet) joined JAMSOSTEK.

characterized by low entry barriers and fierce competition. Therefore, the sector is often mentioned as a source of poverty. Third, probably because they are non-legal activities, they lack access to the formal finance market, education training programs, and information. Fourth, many activities have irregular workplaces and working hours, depending on the type of activities. Finally, as a rule, employees in the informal sector have no access to social protection provided by the government.

2.2.3 Social Assistance and Services: Benefits and Transfers

While JAMSOSTEK may not cover the workers in the informal sector, the Indonesian government has an impressive array of other income and welfare programs that, at least indirectly, may provide a safety net to some members of the informal sector. One of these programs is *Inpres Desa Tertinggal* (Presidential Decree Program for Least Developed Villages/IDT), which is renowned for generating new income-earning activities in backward areas. The program, implemented by BAPPENAS (National Planning Agency) has been designed (at least before the crisis) to channel roughly US\$200 million each year to the poorest households in the least developed villages.

Besides this, there are many other programs with less visibility that represent real safety nets, including efforts by DEPSOS and DEPNAKERTRANS. The most ambitious program implemented by DEPSOS may be the *Penyantunan dan Pengentasan Fakir Miskin* (Assistance for the Poor/PPFM, for poor families), designed to complement the IDT program. Another project also sponsored by DEPSOS focuses on Collective Economic Activity Groups (KUBE) and provides financial support and guidance to ten selected persons in poor villages to enable them to engage in an income-generating activity, the proceeds of which are shared amongst the most needy in the village, as determined by a committee (ILO, 1999d).

In addition to this program, DEPSOS is also active in providing assistance to victims of natural disasters (including floods, droughts, and earthquakes) through the program *Bantuan dan Rehabilitasi Korban Bencana* (Natural Disaster Relief and Rehabilitation/BRKB). In the case of drought, food assistance in the form of free rice is provided to affected households. In response to other emergencies, much of the assistance provided through this program goes towards rehabilitating damaged housing.

One of the most common forms of government security, especially for people in the informal sector, implemented by DEPNAKERTRANS is a public works scheme called *padat karya*. By providing work at low wages, employment can be targeted at those who really need income support. In 1994, the *padat karya* scheme was ended and replaced by training and self-reliance promotion programs for workers. But because of the unprecedented drought conditions and the economic and political crisis, this scheme was revised in 1997.

In addition, as discussed before, in response to the crisis the Indonesian government has established JPS programs. These programs are not exclusively for the informal sector, but given the fact that the majority of the poor is in the informal sector, they

are therefore the most important recipients of these programs. The benefits are provided in cash or in kind (see Table 7).¹³

All these social assistance and services are provided free of charge by the government to those who are really in need.

2.2.4 Voluntary Schemes: Savings, Credit and Micro-insurance Schemes

The government programs as described earlier may not protect everyone in the informal sector from suffering the effects of income fluctuations. In this context, households and communities in the sector were forced to develop their own forms of income security. There are also many schemes that were established voluntarily for certain reasons, for example more flexibility, less or no bureaucracy or complicated administrative procedures, and were probably cheaper than the formal schemes.¹⁴ Two strategies that are still seen in Indonesia today involve households diversifying income sources and communities providing a minimal level of income security (Wiebe, 1996).

The poor household strategy of diversifying income sources can be seen as a social security mechanism in the sector. There is some evidence that this security mechanism is important in Indonesia. One study of urban poverty in Jakarta found that almost all poor households remit significant portions of their urban incomes to family members remaining in rural areas (Breinholt, 1992). This finding may indicate that the income stream of many workers in the urban informal sector may be closely connected with extended families that remain in the rural sector. These income transfers, moreover, flow not only from urban to rural areas: A World Bank report (World Bank, 1995) shows that nearly three-fourths of rural households in Java, for example, made money transfers to other households. Wiebe (Wiebe, 1996) argues that the important implication of these income transfers is that, even if income security for a given individual were to fail as that worker leaves agriculture for employment in the urban sector, overall income security for the household may improve through the diversification of income transfers to that household.

Private income protection in the informal sector may also be provided by employers. Although a written contract may not exist, the relationships between workers and their employers are governed by social customs and traditions (Wiebe, 1996). The World Bank report (World Bank, 1995) shows that the agreements between them often include some elements of risk sharing; employers might agree, for example, to pay a fixed wage regardless of seasonal or other fluctuations in demand.

Besides income security provided by households or individuals at the community level, many neighborhood associations (Rukun Tetangga/RT) collect an informal tax to provide welfare assistance in emergencies. Households contribute a cup of rice

13 More discussions on JPS in Indonesia are found in Abimanyu (1999), World Bank (2000), and Manning (2000).

14 This information is based on informal discussions between the author of this paper and some individuals who engage in income-generating activities in the informal sector like petty traders and small street shops.

(or its monetary equivalent) every week and these resources are used to help families who do not have adequate resources (Wiebe, 1992). These so-called community-based social insurance or saving schemes are not supported, sponsored or protected by the government. They are only privately organized and community-based.

In addition, there are many voluntary village-level organizations providing insurance against the cost of primary health care. In 1992, it was estimated that there were 4,000 villages in 18 provinces with these schemes, known as *Dana Sehat*. Coverage exceeded one million families and included communities in the urban areas as well as rural and fishing villages (ILO, 1999d). One pilot project described as a social welfare insurance scheme (ASKESOS) has targeted poor workers in the informal sector who are already being supported by an NGO or self-help association. With the administrative support of the NGO, these workers are encouraged to save Rp.5,000 per month for three years and while they are doing so, DEPSOS meets the cost of any hospitalization lasting at least five days (to the extent of Rp.1,000,000 per year) and provides a lump sum of up to Rp.600,000 in the event of their death (ILO, 1999d).

Cooperatives can also be seen as another form of a voluntary community-based scheme that provides a certain kind of security to members. However, the development of cooperatives in the country has not yet adequately addressed the need and aspiration of the people. Cooperatives are condemned to be small with a large membership but limited coverage of services.

Finally, there are various special credit schemes with low interest rates, which have been designed for micro-enterprises. These are formal schemes provided by the government and implemented by Bank Rakyat Indonesia (Indonesian People Bank/BRI). The funds are channeled either directly to individuals or through cooperatives. One of the schemes is a special credit scheme for farming (Kredit Usaha Tani/KUT) which has been implemented to address the crisis. However, not all of these credit schemes are really successful. Many producers, as good potential borrowers, are hardly informed about these schemes and so only a very low percentage have ever actually received loans from these schemes. Moreover, especially with respect to KUT, the program has ended with a corruption scandal involving a huge amount of money.

There are also diverse kinds of informal micro-finance institutions, mainly in rural areas, such as the village-based rotating savings and credit associations which function around neighborhood groups of ten to 40 members, mostly women. These savings and credit associations seem to be more successful for two main reasons. First, as they know each other, there are strong social/personal relationships among them. Second, there are no bureaucratic or complicated administrative procedures to follow.

2.2.5 Others

As explained earlier, family and community play an important role in the informal sector in securing social/income protection. Many traditional social security schemes

are established through neighborhood associations, cooperatives, civil society organizations, rotating savings and credit associations and family ties. However, there is no need to formalize these informal schemes of social security. Not only is it difficult to formalize these associations / schemes, but it is more feasible and probably highly cost effective to integrate them into the formal one. The integration can be in various forms. One of them is through an 'investment link', in which part of JAMSOSTEK's social security fund is used to co-finance existing programs/schemes in the informal sector such as health care and accident protection as well as low interest-based credit schemes for micro-enterprises.¹⁵

Though the government recognizes the role of civil society organizations, cooperatives and their networks in providing social protection, still it does not allocate money to support these organizations. One government official from DEPNAKERTRANS has commented that they have taken into consideration the possibility of supporting them financially but it may take some time.

2.3 Labor Market Policy

Indonesia achieved remarkable success in economic development during the era of Soeharto. The GDP growth rate during 1990–1996 was above 7% per annum. On the employment front, however, performance has been somewhat less impressive. The growth of employment has lagged behind that of the labor force. During the crisis period (1997–1999), the open unemployment rate increased as a result of contraction in economic activities, especially in manufacturing, construction, and services.¹⁶ As employment creation has been an important issue in Indonesia since the Soeharto period up to now, the government has introduced and implemented many measures to generate more employment, which will be briefly discussed here.

2.3.1 Active Labor Market Policy

Creating Job Opportunities (Labor Demand)

Many measures have been undertaken by the government to create job opportunities, both through supporting private sector development and creating public works schemes. In supporting the development of the private sector, special attention has been given to the development of SMEs. At the moment, there is a plethora of programs, including assistance with marketing and other business advice, manufacturing/processing, and assistance with linkages of firms.

Two implicit policies underpin most of these programs: (i) the provision of extension services and (ii) mandatory partnership programs. Extension services have been

¹⁵ The advantages of these various schemes are that they are informal, easily established and organized, the community can freely decide how the scheme should work, with no government intervention, and no complicated administrative procedures and regulations. When these schemes are formalized, the people face bureaucracy with many unwanted regulations. More importantly, the schemes become compulsory schemes. This perception is based on informal discussions between the author of this paper and some members of the schemes.

¹⁶ A comprehensive analysis of the effect of the crisis on employment is given in ILO (1998, 1999d).

provided in a variety of forms including Common Services Facilities (UPRT) and Industrial Estate Services (LIK)¹⁷ conducted by the Department of Industry and Trade (MoIT) as well as Small Business Consultant Clinics (KKB) conducted by the State Ministry of Cooperative and Small and Medium Enterprises (MENEGKOP and PKM). The mandatory partnership program¹⁸ has been the approach of several ministries and government agencies and has been developed through a range of different laws and regulations (ILO, 1999d). Another important approach especially to create redeployment opportunities for those who were adversely affected by the unprecedented drought conditions, the economic crisis and political turmoil is the labor-intensive job creation program, *padat karya*, which was revised in 1997. This program is implemented by DEPNAKERTRANS in association with other relevant ministries. It is a program of wage employment through labor-intensive infrastructure development and other economic activities (ILO, 1999).

The government has also provided a number of credit schemes and facilitated access to micro-finance institutions. There are at least 24 micro- and SME credit programs currently operating. Within this group there are large differences in terms of orientation, operation and structure. Some of these programs are directed primarily at special groups, such as farmers or transmigrants. The most important credit schemes are: (i) KUK which is the requirement that commercial banks devote at least 20% of their outstanding loans to small borrowers, and some types of consumer credit; (ii) KUPEDDES, a program that serves MSEs throughout the country but with a large presence in rural areas; (iii) subsidized credit programs targeting cooperatives and their members; (iv) the BPR rural banks; and (v) a number of donor-sponsored SME programs. But, as explained before, not all of these credit schemes can be considered as very successful.

Human Capital Formation, Skills Development (Labor Supply)

Based on information in 1998, there were 19 government departments, which have established and regulated 815 vocational training programs. The most important department is DEPNAKERTRANS, which has several programs that were established to link training needs and market demand. The target groups of vocational training are mainly job seekers. The Ministry is a major contributor to the national training effort as it is responsible for training programs not only for job seekers but also for enhancing productivity, promoting self-employment, training overseas workers, and for the training of apprentices.

During the crisis, the government was obviously concerned with the problem of mass layoffs and instituted a program for laid-off workers. A major program implemented

17 LIK (Industrial Estate Services) or similar industry clusters or districts are found in almost all districts in the country which are specially created by MoIT where SMEs are (re)located and they are provided with common facilities like UPRT, BDS (business development services) and UPT (technical service units).

18 Partnership between SMEs and larger enterprises can be in various forms such as subcontracting in production processes or cooperation arrangements between SMEs and state-owned companies (BUMN) in marketing, research and development, and many others.

by DEPNAKERTRANS for retrenched workers is the P3T program (Program for Jobless Skilled Workers). While the main objective of this program is to assist skilled workers in paid employment or self-employment, one of the elements involve providing retraining to skilled retrenched workers (ILO, 1999d).

Incubator systems¹⁹ for new entrepreneurs are the focus of another important program implemented by MENEGKOP and PKM. The main aim of this program is to promote self-employment activities.

Others

In another effort to increase employment, computerized systems have been installed in many local provincial offices of DEPNAKERTRANS in order to match job seekers and job vacancies. However, from the ILO (ILO, 1999d) study it turns out that these pilot systems are as yet neither fully comprehensive nor fully operational and cannot therefore be considered as reliable labor exchange systems.

As employment creation is not only the government's responsibility but also that of the society as a whole, many existing programs such as vocational training are also undertaken by the private sector, e.g. education/training institutions and NGOs. There are estimated to be more than 20,000 private training providers catering to 4.5 million trainees/job seekers (ILO, 1999d).

In the past, the role of private stakeholders in the preparation and implementation of labor market policy programs was rather neglected. But, since the reform and implementation of decentralization in 2001, the role and function of the tripartite system has improved significantly. The influences of trade unions, NGOs, business associations and other private elements have become stronger than ever before in the preparation and implementation of almost any labor market policy program in Indonesia.

2.3.2 Passive Labor Market Policy

Education System

Indonesia has witnessed a rapid expansion of education in the recent past, which can be seen as a result of the development of education facilities, facilitated by increased income during the Soeharto period.²⁰ However, Indonesia still has the problem of unemployed postgraduate students and skilled workers, a situation which has worsened during the crisis. Since the early 1990s, the government has undertaken some concrete measures, including giving universities the freedom to determine their own curriculum and to reform the educational system in order to improve its effective-

¹⁹ These are systems in which a new potential entrepreneur or individual who wants to establish a new business is guided by a business consultant who provides him with information on all the necessary aspects that are related to his business.

²⁰ Jones and Manning (1992) suggest that one of the most dramatic changes in Indonesia since the first Five Year Development Plan (REPELITA I) in 1969/70 up to the 1990s has been in the educational attainment of its labor force.

ness in preparing people for the labor market. Especially since the crisis, the reform in the education system is also aimed at giving individuals from the poor section of the population more access to the educational system by providing various study grants (Manning, 2000).²¹

Occupational Health and Safety

The World Bank's study (1994) on labor legislation in several countries found that the Indonesian labor standards governing minimum work conditions such as hours of work, rest periods, overtime, annual leave with pay, minimum age of employment, menstrual leave, maternity leave, and bonus and profit sharing are at least as generous as those in the other five APEC countries (i.e. Malaysia, Korea, Chile, Mexico and the United States). The reason for the poor working conditions of industrial workers in Indonesia appears to lie in the difficulties associated with enforcing the centrally mandated standards. The main problems appear to be that Indonesian labor laws in that period (during the New Order) relied more on centralized enforcement systems rather than utilizing workplace delegates as the basis of self-regulation (Agrawal, 1995).²²

Minimum Wage

Minimum wage legislation was first passed in the mid-1970s but had never been seriously enforced. The new legislation demanded regular revision of regional minimum wages so that they kept track of individuals' minimum physical needs, cost of living, and labor market conditions. The minimum wage is set separately by region and sector. In 1989, the government introduced a regulation stating that minimum wages must be reviewed at least every two years. But, in 1990, a new decree was introduced which required that minimum wages be adjusted annually in proportion to the consumer price index (CPI). Attempts were also made to enforce this legislation for firms with 25 or more employees, initially around Jakarta and some of the other large cities. Recently, this legislation was enforced in all provinces.

Others

As already discussed, the government has also introduced many policy measures to support actions leading to steady, productive employment to guarantee stable sources of income and to increase diversification of income sources to reduce households' vulnerability to changes in income from any single source. Also, as discussed before

21 See ILO (1999) on the discussion of important measures taken by the Indonesian government since the crisis for developing human resources in the country.

22 Katjasungkana (1993) suggests that widespread absence of adherence to the minimum standards for working conditions and the resulting poor working conditions, especially in the industrial sector, and especially for women, was also related to the fact that workers during the Soeharto period did not own the right to organize and form independent unions (that was before the Ministerial Regulation No.1, 1994) They were therefore unable to legitimately participate in activities that monitor and regulate their working conditions. See also two reports from ILO (1993, 1996) on working conditions (especially of women), and existing government measures to improve the conditions in Indonesia.

in Sections 2.1.2, 2.1.3, Indonesia does not have unemployment benefits and re-trenchment payments, but it does have an early retirement scheme.

3. Assessment of the Effectiveness and Efficiency of the Existing System

Systems of social protection or social security are neither good nor bad per se. Initially, social security systems should be assessed neither positively nor negatively. Instead, each system of social protection should be evaluated as a comparison between objectives and what has been achieved. This section provides a generalized picture and overview of the overall system and schemes of social protection or social security in Indonesia.

3.1 Coverage

The social security system in Indonesia is still focused almost entirely on workers in the formal sector whereas the much larger proportion of workers who are found in low-income enterprises or in the informal sector do not have any access to the system. As shown in Table 8, less than 5% of the informally employed are covered by the system, as compared with more than 10% of the formally employed. Moreover, workers in the informal sector cannot afford to pay insurance provided by private companies or commercial banks. These informal workers face not only a much greater risk of income loss, but they are also more vulnerable to economic shocks due to their lower average incomes. Even in the formal sector there is a considerable disparity between the public sector and the small minority of private sector employees who are covered by good occupational benefits, the slightly larger minority covered by the modest JAMSOSTEK benefits and the majority who are dependent on the basic provisions of the labor law. Only 6% of the labor force can reasonably expect a pension on retirement. This existing degree of coverage may lead to unintended negative distribution effects of income/welfare, not only between workers in the formal sector and those in the informal sector, but also within the formal sector.

The government estimated that in the period 1996–1999 there were 183,000 companies (in the formal sector) with 26.3 million wage earning employees (in 1998), who were required to make social security contributions. However, until September 1999, 86,600 companies with 15.9 million employees in 1999 or 14.9 million workers in 1998 were participating in JAMSOSTEK. Thus, only 56.6% of those employees in 1998 who were entitled to participate actually are included, showing that apparently there is a widespread non-compliance (Table 9).

Recent data provided by Alkatiri *et al.* (Alkatri *et al.*, 2000) show that in 2000, there were about 17 million employees (of about 35.8 million wage earning and salaried workers)²³ enrolled in JAMSOSTEK. From that total, only 1.2 million people were enrolled in the SHI (i.e. JPK) component of JAMSOSTEK, whereas from the entire

23 Irawan *et al.*, (2000).

population²⁴ JPK JAMSOSTEK covered only 2.9 million people in the same year, less than 5% of eligible people. Considering that the JAMSOSTEK Law No.3 was enacted in 1992, the achievement of this social security scheme, especially for the SHI program, is relatively low (Alkatiri *et al.*, 2000; types of schemes are discussed in Section 2.1.2).

Table 9: Employment and JAMSOSTEK's members, 1994–1999

Description	1994	1995	1996	1997	1998	1999 ¹
1. Number of wage employees (million)	25.1	25.7	26.3	27.1	26.3	26.1
2. Number of formal employers (thousand)	182	182	183	183	183	183
3. Membership of JAMSOSTEK						
a. Wage employees (million) ²	7.6	9.1	11.3	13.4	14.95	16.0
b. Employers (thousand)	51.9	60.1	68.7	77.7	82.5	86.6
4. Potential members (million)						
a. Employees (1–3a)	17.5	16.6	15.0	13.7	11.4	10.1
b. Employers (2–3b)	130.4	121.9	114.3	105.3	100.5	96.4

1 Until September 1999

2 Salaried workers are not included.

Source: Ministry of Manpower, BPS, JAMSOSTEK's long-term plan 1996–2000; Abas, 1999; and for 1999: estimate by Purwoko, 1999.

The 1999 study by ILO shows that about 93% of the population of Indonesia has access to health services (though not to all services due to their financial constraints), although a much smaller percentage has adequate health insurance.²⁵ While this is commendable given the level of economic development, comparison figures from other countries such as Malaysia, Thailand and the Philippines indicate that the sector may be under-financed and that this is reflected in lower health standards. Indonesian expenditure on health care represents 2.7% of total public expenditure, and 0.7% of GDP (ILO, 1999d).

There are several reasons why relatively few workers are covered by the system (Dailey and Turner, 1997). The following are some of the problems.

First, JAMSOSTEK applies to workers in the formal sector only (both private and state companies), while the majority of workers is in the informal sector.²⁶ Second,

24 According to the Law No.3, 1992, not only the employees but also their spouse and children are entitled to health-care benefits.

25 The ILO's study reached this level because it also includes poor people that can access general health services with relatively low costs. These services are provided by the government through centers for public health services (PUSKESMAS) that are found everywhere.

26 This is different with some other developing countries. To give an example, in India the majority of its employed population work in the informal sector. This works differently in Indonesia under the social security law of 1992. Under the state system of social security in India, every person employed in the informal sector over a certain age is entitled to a basic pension. However, hardly anyone in the informal sector is informed about this entitlement and only a very low percentage actually claims the basic pension. See further studies on social security systems in other developing countries by van Ginneken (1998a, b, 1999), FES (1997), ILO (2000), and Fultz and Pieris (1999).

the law mandates employers to utilize the JAMSOSTEK scheme if they do not have a better scheme in place. Because of this optimal obligation, many employers choose to opt out by purchasing health insurance from private insurance companies.²⁷ Third, many employees who should be covered by their employers are not. There are cases showing that employers who pay contributions for their employees often avoid covering their contract or temporary workers. Employers often retain workers on contract status, sometimes for years, instead of making them permanent employees. Apparently, many employers believe that contract employees are exempt from JAMSOSTEK contributions. It is generally understandable that contract or other short-term workers are not supposed to be exempt from JAMSOSTEK contributions, at least for work-related accident and death benefits.²⁸ Fourth, in some industries, such as the cigarette industry, employees commonly subcontract to other employees for part of the work. The subcontracted employees legally do not benefit from JAMSOSTEK contributions. Fifth, employers with less than ten employees or with a monthly payroll of less than Rp.1 million are not required to cover their employees. Sixth, services provided by JAMSOSTEK are not satisfactory for many employers and employees.²⁹ Seventh, the widespread lack of confidence in the management of JAMSOSTEK contributes to the low coverage (Ahmed and Dhanani, 1999).

Another reason is corruption within the system. Since the political reform in 1998, corruption in the country has worsened, hence the people's trust in any public system (especially a system of great size) is almost non-existent.

Given the above facts, it is thus necessary to adapt and improve the programs, operation, administration, and services provided by the scheme. Increasing the satisfaction of the population with services provided and enlarging the coverage so workers in the informal sector can also be included must be the main objectives of the reform of the social security system in Indonesia. Programs more appropriate to the informal sector that the system should have are more short-term in nature, such as health care and accident protection. In a complimentary way, the need of micro and small enterprises for capital may be provided with bank credits supplied by part of the social security investment funds.

In fact, PT JAMSOSTEK has developed appropriate measures to deal with the informal sector or low-income households by:

27 The number of insured individuals in private insurance is now growing very rapidly (faster than the growth of JAMSOSTEK), especially after the financial crisis that hit Indonesia badly in 1997/98 (Alkatiri *et al.*, 2000).

28 Daily, casual and contractual workers are specifically mentioned as being covered by the scheme in the explanation in Article 4 of Act No.3. However, Regulation No.14, Article 3, states that membership of casual, daily, and contractual employees in the employers' social security program will be provided further by the Ministry of Manpower. The issue does seem to be unclear. There is an exemption for Provident Fund contributions during a probationary period of a maximum of three months.

29 Unfortunately, there are no empirical studies as yet about the degree of satisfaction in the population with the quality of the system. However, from evidence one gets the feeling that the degree of satisfaction of those who benefit from the JAMSOSTEK scheme is low. Based on their assessment, Alkatiri *et al.* (Alkatiri *et al.*, 2000) argue that there is a social stigma that government-sponsored programs always provide poor quality of services and high administrative costs. It is this perception that causes even a company without adequate health or other insurance coverage for its employees to opt out.

- (1) setting aside 5% of surplus funds for the purpose of providing soft loans to micro and small enterprises and cooperatives;
- (2) providing housing loans to members;
- (3) covering casual and daily wage workers in construction, cigarettes factories, and other undertakings; and
- (4) providing health care at very modest fees.

3.2 Feasibility

Since it is a state company, PT JAMSOSTEK comes under the general supervision of the Directorate-General of State-Owned Enterprise Development, MENKEU. However, as a financial institution, PT JAMSOSTEK is regulated by the Directorate-General of Financial Institutions, MENKEU, which supervises all financial institutions in the state and private sector, including banks, insurance companies and pension funds. The sole shareholder of PT JAMSOSTEK is MENKEU. As a government-owned corporation, PT JAMSOSTEK has a responsibility to pay dividends to its shareholders.³⁰

This positioning of JAMSOSTEK as a state-owned company has some deficiencies. PT JAMSOSTEK, as the institution implementing JAMSOSTEK's programs, does not have authority to inspect whether or not employers do an under-reporting on their employees and wages list.³¹ Also, apparently, there is lack of compliance with JAMSOSTEK, with many employers simply not joining the programs.³²

It is difficult to see how PT JAMSOSTEK can develop as the administrator of a comprehensive national social insurance scheme without being accorded the responsibility and the powers associated with enforcement. So, law enforcement under the direct control of the executive body of JAMSOSTEK is absolutely required. This is because compliance and law enforcement are part of JAMSOSTEK's operations, and this is not an easy task to do. Compliance and law enforcement are big problems to resolve for JAMSOSTEK, especially because of Legislation No.8 of 1981, which limits the authorization of state servants having an investigation certificate from the Ministry of Justice and Human Rights to conduct enforcement. JAMSOSTEK personnel are not authorized to do so, therefore, JAMSOSTEK's operations problem is a matter of the organizing board's legal entity as *Persero* or PT (Purwoko, 2001a).

JAMSOSTEK's schemes as provided in Article 3, Legislation No.3 of 1992, state that all employees are entitled to JAMSOSTEK, so the under-reporting of employees and wages is in violation of the law. For this reason, legal measures are taken by the executive body in cooperation with labor inspectors, as JAMSOSTEK cannot handle

30 The appointment of PT JAMSOSTEK as the organizing institution is based on the requirements of the 1945 Constitution. Under Article 33 of the 1945 Constitution, it states that any functional entity serving the whole population in the area of social security shall be managed by the state (Purwoko, 2001a).

31 A team of ILO personnel specially formed for the restructuring of JAMSOSTEK have conducted a field survey in many parts of Indonesia over the period 2000–2001. Their findings indicate that there is a tendency for many employers to submit under-reported wages lists and employees' records.

32 The findings of the ILO team show that the compliance rate with JAMSOSTEK was only 40% (Purwoko, 2001a).

the enforcement. For law-enforcement, JAMSOSTEK can cooperate with the national police and the Office of the Attorney General (AG). Furthermore, in order for the law enforcement to be effective, the executive body of JAMSOSTEK can apply for outsourcing staff from DEPNAKERTRANS' labor inspectors and the AG to be employed at any time (Purwoko, 2001a).

Besides the fact that the existing law on the social security system in Indonesia should be enforced, that its coverage should be enlarged, and the status of PT JAMSOSTEK should be changed, some schemes, e.g. pension and health insurance also need to be improved in order to better manage the system. In addition, consideration should also be given to the introduction of a maternity benefits scheme based on social insurance principles to replace the employer liability system, which leads to abuse and tends to prejudice the protection and employment of women.³³

Currently, the government is undertaking a reform of the existing system in its efforts to enlarge its coverage as well as to improve the programs and the quality of benefits, and also to improve its management.³⁴ For this purpose, the government has proposed a new law that will support the reform. Under this new law the legal status of PT JAMSOSTEK will be amended to a new legal entity as a fiduciary trust fund with a board of equal tripartite composition, which is responsible for supervision and control. The proposed law is still under discussion.³⁵

As a matter of fact, there is an ongoing public debate right now on the management of the social protection system in Indonesia. The main issue raised is whether the system is best managed by local authorities or a regional government. This question has become very important since the implementation of decentralization of power to very small district or municipal governments creates a euphoria of self-governing by district or municipal government. Compulsory insurance is being understood as too much control of the central government and a restriction of freedom (understood as a key aspect of democracy) of the population. Any idea of compulsory membership

33 These changes have been recommended by an ILO mission in Indonesia in 1999.

34 In relation to this, the Indonesian government had been recommended by a World Bank study to develop supplementary private pension schemes and for this purpose, among other things, the so-called monopoly of JAMSOSTEK (or the compulsory membership of its Jaminan Hari Tua (JHT scheme or old-age benefits) should be ended (Leechor, 1998).

35 The need to reform is also recommended by many studies that have been done on the legislated social security programs in Indonesia which show that the system has more disadvantages than advantages for the employees. Besides those already mentioned in the text, other studies are from World Bank (World Bank, 1994), McLeod (McLeod, 1993), and Agrawal (Agrawal, 1995). The World Bank's study, which compares the social security system in Indonesia with those in some other APEC countries, found that while the details of the programs for the components mentioned above vary from country to country, the social security system (JAMSOSTEK) in Indonesia is relatively ambitious in coverage and compares favorably to those in the more developed APEC countries. While it may be viewed as an important step towards improving workers' welfare, given the size and the cost of the program, too rapid and rigid implementation is almost certain to create problems. Both McLeod and Agrawal conclude that the cost implications of JAMSOSTEK, estimated at about 12% of the wage bill, are high and could have a major effect on limiting the growth of employment in Indonesia, especially in smaller firms whose capacity to make regular contributions is likely to be limited. According to McLeod, the JAMSOSTEK approach 'substitutes the coercive power of government for the bargaining power of trade unions in attempting to force employers to provide improved benefits (of a particular kind) to their employees' (McLeod, 1993, p. 89).

by the central government is being understood as against decentralization. But, on the other hand, decentralizing the social security system by giving freedom to district and municipal governments in designing their own social security systems may create uneven development of social security programs among regions. So, perhaps for the time being, the best way is to keep the system under the responsibility and management of the central government. This is also related to Article 33 of the 1945 Constitution stating branches of production that are needed for the benefit of the whole population shall be managed by or be under the control of the state, which means the central government.

The role of trade unions is very important not only for the implementation and the development of concepts and schemes but also in the process of improvement. This is because they know exactly what the workers need or what kind of schemes the workers wish to have. Trade unions can also function as an effective controller of whether the system is fully implemented by employers. CSOs can also play a role monitoring the implementation of the system.

With respect to the informal sector, it would make sense to have different management methods and means of enforcement for the formal and informal sectors. The informal sector consists of low-/unstable/seasonal income and self-employment activities, meaning that they have little earning power. Furthermore, they are unregistered and many of them, depending on the kind of activities (e.g. manufacturing, trading and services) do not have a permanent address. These important aspects are to be taken into consideration when designing a social security system for workers in the informal sector.

3.3 Financial Sustainability

From a long-term point of view, the financial sustainability of the social security system in Indonesia will depend very much on the growth rate of participants and on their income level. In turn, this depends on economic conditions. So, in a bad economic situation, as after the financial crisis in Indonesia, many employers face financial problems, which will hence discourage them from joining JAMSOSTEK. The high inflation rate will also put the system in great financial risk. For instance, the growth in premiums of the ASKES scheme, on average, has been lower than the growth of health service expenses. The government determines the salary levels of civil servants approximately every two to three years. Sometimes, such as during the recent financial crisis, the basic salary is not increased. As a result, the premiums received by PT ASKES do not increase (because they are based on the basic salary). Nevertheless, health service prices must be adjusted to offset high inflation rates due to more expensive medical supplies and medicines caused by the falling exchange rate of the rupiah. This trend threatens the sustainability of the ASKES scheme. Many autonomous hospitals are expressing their unwillingness to provide services for ASKES members if the reimbursement levels are not adjusted to their normal user charge rates (Alkatiri *et al.*, 2000).

The financial sustainability of the social security system is not only susceptible to economic changes, but also to demographic changes. If the percentage of the elderly is larger than the percentage of the working population (or labor force), or if the dependency ratio is high, there will be more demand for pensions and health care whereas, on the other hand, the supply of funds to the system will decrease as contribution fees decline due to the smaller working population.

With respect to the utilization of funds, they are normally invested in various forms such as time deposits, bonds, shares, bank certificates, equity, and investment in land and buildings. The composition of investment varies among different social security providers. For instance, TASPEN invested its funds mainly in time deposits and bank certificates; whereas approximately 80% of JAMSOSTEK's funds were invested in time deposits in banks. But, JAMSOSTEK was apparently subject to political pressure under the Soeharto regime as to how and where it invested its funds. This resulted in considerable sums being invested for political reasons in banks or other financial enterprises at rates of interest which were unfavourable to the scheme's members. This was particularly common in 1998 when the financial sector was very volatile (ILO, 1999c).³⁶

The government is not allowed to use JAMSOSTEK's funds directly, although in the past it has tried to intervene in this matter. The government does get, however, dividend payment as a stakeholder in PT JAMSOSTEK.

3.4 Gender Equity

Indonesia does not have policies that induce gender discrimination in the implementation of the social security system. There are no different standards or special treatment for women. However, women are less likely to be covered by the system as in the formal sector the number of female workers is traditionally smaller than the number of their male counterparts. In the informal sector, this gap is much smaller as the participation rate of females in this sector is much higher than in the formal sector. This structure is due to the fact that on average the educational level of female workers is lower in comparison with their male counterparts. Low education plus social and cultural factors are barriers for women to enter the formal sector. So, gender equity in the coverage of the system is linked to the gender structure of the labor force in the formal sector. If the system also covers workers in the informal sector, more women are likely to be covered in the system.

Social insurance benefits do not include maternity and pregnancy benefits, nor are there other special measures which cover gender specific risk. The payment of these benefits is the responsibility of employers who pay full wages for three months with the possibility of up to three months more on medical certifications. Despite the legislative requirements for these payments and prohibitions against dismissal during pregnancy and maternity leave, discrimination and evasion usually occur to some extent (ILO, 1999c).

³⁶ See Section 2.1.2 for who contributes to the funds and whether the contribution is voluntary or compulsory.

3.5 Costs of Administration

PT JAMSOSTEK's 1995 unaudited income and expense report shows total administrative expenses to be Rp.115.1 billion. With respect to its structure, this includes management, operations, personnel, administrative and general expenses, but excludes the expenses of subsidiaries. Based on 9.1 million participants in that period, this represents administrative costs of Rp.12,648 per participant for one year. Administrative expenses are 3.4% of the total assets of Rp.3.4 trillion as of December 31, 1995, excluding subsidiaries. Administrative expenses are 11.3% of the total 1995 contributions of Rp.1 trillion (Dailey and Turner, 1997). These figures may give some idea about efficiency in administering the social security system in Indonesia.

Although data from other countries are only for the mandatory Provident Fund and are dated, they can be used here for a comparison. The figures show that the administrative costs of the social security system in Indonesia are high (Table 10). In respect to the availability, coverage and performance of duties by the administration, it can be said that the administrative costs of the social security system in Indonesia are too high and not feasible. Therefore, there is a need to administer the schemes more effectively, efficiently, and economically with a strong emphasis on higher standards of services.³⁷

As already explained earlier (see Section 1.1), in Indonesia social security contributions and benefits are kept outside the state budget; a state-owned company outside governmental departments, that is PT JAMSOSTEK, administers them. So, the cost for the implementation of the system must be covered by revenues from the invested funds collected from contributions.

Table 10: Comparison of Administrative Expenses to Total Assets and Total Contributions

Countries	Administrative expenses as a percentage of	
	Total contributions	Total assets
Indonesia (1995)	11.32	3.41
Chile (1990)	15.40	2.30
Malaysia (1989)	1.99	0.18
Singapore (1990)	0.53	0.10
Zambia (1988-89)	51.70	6.80

Source: Dailey and Turner, 1997.

³⁷ The 1999 ILO study (1999c) found that PT JAMSOSTEK experienced considerable difficulty in carrying out administrative functions associated with registering members and employers, collecting and recording contributions and processing benefit claims accurately and speedily. Systems are computerized and decentralized but it has not succeeded in compiling a national database in order to keep track of the movement of registered members. The organization has been under considerable public scrutiny over the last two years partly because of the public's perception of its linkage with the previous administration and partly because of highly publicized incidents which have drawn attention to limitations in the management and the performance of the scheme.

3.6 Targeting

As already explained in Section 2.1.2, Indonesia has several social insurance programs administered by different institutions for private sector workers and employees of state enterprises, public servants, members of the armed forces, and the general public. Unfortunately, the intended target group of the system is only workers in the formal sector, at least for the time being. In JAMSOSTEK, for the Provident Fund, both employees and employers pay the contribution whereas for others, the employers pay the contribution.

As the premium is fixed (flat rate) based on the basic salary, part of the population may pay more, and hence get more benefits than others. This is one current problem that PT JAMSOSTEK is going to change.

3.7 Accountability and Transparency

Since the political reform in 1998, public demand has become very strong for transparency in any political decision and implementation and in government administration, especially in dealing with activities using public money. This also includes the activities of state-owned companies, including PT JAMSOSTEK. Many people believe that information on JAMSOSTEK is hard to obtain, leading to widespread mistrust of JAMSOSTEK. But, in fact as requested, PT JAMSOSTEK supplies financial data and also produces brochures, booklets, forms and magazines, most of which are published in both Indonesian and English. The annual fact book published by PT JAMSOSTEK is nicely produced and informative.

However, in general the process of change towards a 'clean government', including transparency, is not going as smoothly as publicly expected. There is still strong pressure from some political interest groups who want to keep the status quo as in the period before the reform. The country still has to face corruption; it has become even worse. This has created serious problems for Indonesia, especially concerning the financial situation, leading to a slow economic recovery. The government seems to have no idea how to handle the growing corruption effectively; also law enforcement does not work.

There is high affinity for corruption within certain sectors that yield financial revenues, including rich state-owned companies, including PT JAMSOSTEK. There is the belief that the government may be spending workers' retirement funds on luxuries for its own officials and on projects that are not related to social security benefits. In addition, PT JAMSOSTEK has committed itself to giving a significant annual contribution to SPSI for the operating expenses of SPSI's national headquarters. Using JAMSOSTEK funds to subsidize SPSI contributes to the perception that the government treats PT JAMSOSTEK as a slush fund, and not as a legitimate social security organization (Dailey and Turner, 1997).

But, currently some change is taking place. PT JAMSOSTEK has designed a system that can not only avoid the danger of misuse in the future, but can also monitor and supervise the financial management of the company on a regular basis. It is hoped

that this new system will lead to a more open and transparent process of allocating money and benefits.

However, no matter how well-designed the new system is, it will not work as long as strong pressure remains from certain groups within the government who continue to behave in their own interest and prevent law enforcement. Unfortunately, these two are the greatest problems of the ongoing political reform in Indonesia right now.

4. Development of Innovative Programs and Alternative Social Protection Schemes

As discussed before, Indonesia does not yet have public pension and maternity benefit schemes based on social insurance principles and unemployment insurance. With respect to the development of a public pension scheme, as suggested by the ILO based on its study in 1997 on the restructuring of the social security system in Indonesia, the Provident Fund of JAMSOSTEK can be converted to or replaced by a defined-benefit social insurance pension scheme covering private sector employees. This scheme should provide continual periodic payments upon retirement, invalidity, or on death to surviving dependents in return for contributions of employers and insured persons. The level of benefits provided by the pension scheme may be set to allow scope for supplementation by private initiative. This would be simple to administer.

With respect to the development of unemployment insurance, referred to in Article 6 of Legislation No.3, 1992, JAMSOSTEK can redevelop its programs with the approval of DEPNAKERTRANS and other relevant institutions that of the total contribution of 7.5% of the payroll, the employee contributes 2.5% and the remaining 5% will be borne by the employer.³⁸ The approval of this proposed plan will have financial consequences in the form of additional contributions at 7.5% to the current contributions, from between 9.24%–13.74% and 16.74%–21.24%. The additional contribution paid by employees will change from 2% to 4.5%.

With respect to the development of a maternity benefit scheme based on social insurance principles, the payment of benefits becomes the responsibility of the social insurance fund. With this new scheme, female employees can be protected from discrimination against pregnant women and evasion of the employers' obligation to pay maternity benefits as explained above. Additionally, with this new scheme uniform standards of maternity protection and reduction in discrimination against the employment of female workers can be ensured (ILO, 1999c).

Another important issue, the most significant feature of JAMSOSTEK, is the implementation of a national health insurance scheme. The implementation of the scheme should be linked with the introduction of full cost recovery for public health facilities, and part of the income generated in this way should remain with the unit that

³⁸ It is very risky to expand existing programs to include an unemployment insurance scheme during this crisis situation, because of numerous layoffs with regard to the moral hazard which probably appears both from the employer and the employee side.

provided the service in order to ensure continued improvement of facilities (ILO, 1997). Whilst JAMSOSTEK should be responsible for the management of the scheme and should directly operate the necessary membership and contribution record system, it would not be advisable for it to also seek to arrange for the provision of medical care or directly provide it. According to ILO recommendations, responsibility for arranging for the provision of medical care to insured persons and their families should be contracted, under conditions of managed competition, to licensed health-care purchasers in return for a fee based on the membership covered by each purchaser.³⁹ Each purchaser would have to satisfy prescribed conditions to be granted a license, which would be issued by the national supervisory authority in consultation with JAMSOSTEK. They could be other statutory bodies such as ASKES or commercial insurance companies (ILO, 1997).

There has been an on-going discussion about the government's responsibility in the development of the national security system in Indonesia. The legal basis for Indonesia's social security is provided implicitly in the 1945 Constitution, Articles 27 and 34.⁴⁰ Under these Articles, social security is the government's responsibility with the objectives of the welfare state. Also given the fact that the majority of the country's population is from low-income groups, the national security system should not be fully privatized. It does not mean, however, that the private sector cannot play a role. On the contrary, the private sector should be given a bigger role in providing alternative schemes, but basic security must come under the responsibility of the government.

With respect to the informal sector, there is no need to formalize the sector for three reasons.

First, as discussed before, there are various traditional financial support systems that can provide a certain security to many people in the informal sector. So, based on this fact, it is more feasible to integrate these traditional systems into the existing formal system of social security. Second, the informal sector itself acts as an alternative social security system for the involved persons as activities in the sector generate a certain income for them. For instance, during the crisis in 1998 many workers were dismissed from the formal sector; and because Indonesia does not have unemployment benefits, almost all of them were pushed to do any kind of income-generating activities. Third, when the informal sector is formalized, which means that enterprises must be registered, have a permanent address, and must pay taxes, many of them will face a financial problem and probably they will be pushed out of business as their income is not sufficient to pay taxes. The problem is more obvious for seasonal activities as the income is not permanent. Moreover, for the government the administrative burden of formalizing the sector is likely to be higher than its received benefits, as the number of activities / enterprises in the informal sector is huge.

39 There should be a clear distinction between purchasers of health services, who negotiate contracts on behalf of JAMSOSTEK members, and the latter as the users of health services (insured persons).

40 Article 27 states that every citizen is entitled to have an employment opportunity with a sufficient income provision for humanitarian reasons, whilst Article 34 states that the government shall take care of the poor and the needy, including neglected children and the homeless.

Alternatively, the existing social security system (JAMSOSTEK) should be improved so as to give more access to those in the informal sector. However, this is not an easy task because of the reasons already discussed. Another alternative is to develop and strengthen the existing traditional social security schemes in the informal sector in an integrated manner with the formal social security system. The integration between the formal and the informal social security systems can be enforced by using part of the social security investible fund to co-finance some traditional schemes or programs that are more appropriate to the informal sector such as health-care and accident protection, and low interest credit schemes for micro-enterprises.

5. Policy Recommendations

As explained in Section 4, the social security system in Indonesia needs to be improved. The improvement should be especially in four areas: (i) the coverage of the system; (ii) the compliance; (iii), the quality of the existing schemes; and (iv) new schemes i.e. unemployment benefits, pension scheme, and maternity and pregnancy benefits. But, for this purpose, three important pre-conditions must be met first.

First, in line with Indonesia's tripartite approach to industrial relations, there must be good cooperation between workers and trade unions, employers and employers' associations, and the government.⁴¹ Second, there must be good coordination amongst related ministries (e.g. DEPNAKERTRANS, MENKEU, DEPSOS and DEPKES) and government institutions. In other words, there should be an integrated policy framework on the development of social protection not only to avoid conflicting priorities and to create a consensus both on provisions and mechanisms, but also to facilitate the improvement of the quality of the existing programs. Third, there must be law enforcement. The third pre-condition is important for the increase of compliance or in order for minimization of any employers to do under-reporting both on their staff and wages to JAMSOSTEK. The first pre-condition is important to meet the second condition.

Efforts to improve the social security system in Indonesia should also include the development of public pension, maternity benefits and unemployment insurance schemes based on social insurance principles. With respect to the development of a public pension scheme, consideration should also be given to the restructuring of pension schemes in the public sector in order to regularize their financing and provide a greater measure of uniformity and consistency between schemes.⁴² Initially the reform should focus on establishing a fund for the public servants scheme that could be set up on a partially funded basis with payment for past liability met through in-

41 In this case, represented by DEPNAKERTRANS, MENKEU and PT JAMSOSTEK.

42 At the moment, TASPEN provides a pension scheme for civil servants and employees in the public sector. The problem is that the general pension scheme should be developed within JAMSOSTEK (from the Provident Fund), and it should be harmonized with the public sector pension scheme in TASPEN in order to have one national pension scheme.

stallments.⁴³ Both pension and unemployment benefits shall be provided first for those laid off from current employment and the amount of benefits shall be made on a flat-rate basis.

Meanwhile, a maternity benefits scheme based on social insurance principles should be developed to replace the employer's liability. The payment of benefits should become the responsibility of the social insurance fund, so female employees can be protected from discrimination against pregnant women and evasion of the employers' obligation to pay maternity benefits. Also with this new scheme, uniform standards of maternity protection and reduction in discrimination against the employment of female workers can be ensured.

JAMSOSTEK should also seize the opportunity to provide more effective social protection to private sector workers through the introduction of a system that provides periodic payment so especially temporary or seasonal workers can also be insured.

Further, as explained before, the implementation of a national health insurance scheme is the most significant feature of JAMSOSTEK, and it should be effected as soon as possible with due regard to the need to ensure both equity and access to treatment. As also recommended by ILO, to guarantee its effectiveness, the national health insurance scheme should be supervised by the national authority, not by the private sector. The existing health insurance scheme of JAMSOSTEK has been introduced without adequate preparation and without sufficient regard to other policy objectives relating to health-care delivery and financing. Therefore, to have a good national health insurance scheme, the existing health insurance scheme of JAMSOSTEK should be improved in coordination with other aspects of health-care delivery and financing.

The improvement of the social security system in Indonesia must also include a change of the legal status of PT JAMSOSTEK. As discussed before, the legal status of PT JAMSOSTEK is a profit-making taxable public limited liability company, which is inconsistent with its role as a trustee of members' social insurance contributions. JAMSOSTEK pays taxes to the government, instead of government revenue subsidizing some of the social security benefits, as is done in many other countries. The social security entity in the vast majority of other countries is a non-profit government organization, or 'trust fund', which has a mission to benefit the participants (Dailey and Turner, 1997). So, the government's plan to change the current legal status of PT JAMSOSTEK to become a Tripartite Board of Trustee should proceed.

With respect to the role of the private sector, based on the legal basis for Indonesia's social security as already explained in Section 4, and given the fact that the majority of the country's population is from the low-income group, the national social security system should remain the government's responsibility. However, while provid-

43 One part could be financed by the government and the other part by public servants (the insured persons). For the time being, this method is likely to be the best alternative of financing the pension scheme in the public sector due to the current public financial shortages (Purwoko, 2001b).

ing basic security, the government should give the private sector a bigger role in providing alternatives schemes.

The coverage of JAMSOSTEK should also be enlarged to give more access to those in the informal sector, or, as an alternative (as discussed in Section 4), part of the social security investible fund should be used to co-finance some of the existing traditional social security schemes or programs that are more appropriate to the informal sector such as health-care and accident protection, and low-interest credit schemes for micro-enterprises. However, there is no need to formalize the informal sector for reasons already given in Section 4.

Finally, in almost all types of insurance, the employer pays all or at least much more than the employee in terms of contribution. This contribution system should be redefined. In 'wealthy' companies the ratio of the proportion of the contribution paid by the employee and that by the employer should be higher than the ratio in 'less healthy' companies, as generally the average wage/salary of employees in the first group of companies is higher than that in the second group of companies.

Appendix

Table 1: Real Growth in Output in Indonesia before the Crisis (%)

	Share in 1995	1988–91	1991–94	1995	1996
GDP	100.0	9.0	7.3	8.2	7.8
Agriculture	16.1	3.6	2.8	4.2	1.9
Oil & gas	8.7	6.7	0.8	-1.4	0.9
Public administration	6.0	4.5	2.1	1.3	1.1
Others	69.2	12.0	10.3	11.3	10.7
of which:					
Manufacturing	21.3	12.0	12.6	13.0	12.0
Construction	7.6	15.0	13.9	12.9	12.4
Utilities	1.1	13.7	10.8	15.5	12.6

Source: World Bank, 1997a.

Table 2: East Asia's unprecedented Growth before the Crisis

Country	Average annual GDP growth (%)		
	1965–80	1980–90	1990–95
East Asia			
China	6.8	10.2	12.6
Hong Kong	8.6	6.9	5.6
Japan	6.4	4.0	1.0
Republic of Korea	9.9	9.4	7.2
South East Asia			
Indonesia	7.7	6.1	7.6
Malaysia	7.4	5.2	8.7
Philippines	5.7	1.0	2.3
Singapore	10.0	6.4	8.7
Thailand	7.3	7.6	8.4

Source: World Bank, 1997b.

Table 3: Percentage Distribution of Gross Domestic Product At Current Market Prices by Sector, 1997–2000 (%)

Sector	1997	1998	1999	2000
Agriculture, livestock, forestry & fishery	16.09	18.08	19.54	16.92
Mining & quarrying	8.85	12.59	9.91	12.91
Manufacturing industry	26.79	25.00	25.92	26.04
Electricity, gas & water supply	1.25	1.18	1.21	1.17
Construction	7.44	6.46	6.71	7.14
Trade, hotel & restaurant	15.86	15.35	15.92	15.19
Transport & communication	6.14	5.43	4.97	5.00
Financial, ownership & business services	8.66	7.31	6.36	6.20
Services	8.92	8.59	9.46	9.43
GDP	100.00	100.00	100.00	100.00
GDP without oil & gas	92.09	88.69	90.42	86.57

Source: BPS, 2001.

Table 4: Distribution of Working Population by Level of Education in Indonesia (%), 1998–2000

Level of education	1998	1999	2000
No schooling	8.44	8.02	7.50
Primary school not completed	18.22	16.98	15.16
Primary school	36.50	35.95	37.18
Junior high school	14.24	15.32	15.99
Senior high school	18.38	19.11	19.50
Diploma I/II	0.80	0.88	0.96
Academy/Diploma III	1.18	1.24	1.29
University	2.25	2.49	2.41
Total	100.00	100.00	100.00

Source: BPS, 2000a.

Table 5: State Budget Allocation for Social Welfare and Education, and Some Other Important Sectors, Routine Expenditure, 2000 and 2001 (billion Rp.)

Sector	Realized state budget 2001	Planned state budget 2002	% Change from state budget 2001
Industry	21.7	23.5	8.3
Agriculture	740.3	821.2	10.9
Manpower	118.2	153.5	29.9
Trade, business, finance & cooperatives	182,632.6	160,617.2	-12.1
Transportation	390.1	435.1	11.5
Mining & energy	276.0	313.0	13.4
Education, culture, youth & sport	4,095.0	4,511.5	10.2
Social welfare, health care & women Empowerment	553.3	667.7	20.7
Others	24,560.6	27,435.1	11.7
Total	213,387.8	194,977.8	-8.6

Source: Department of Finance, R.I. (Data Pokok Nota Keuangan dan RAPBN Tahun Anggaran 2002), September 2001, Jakarta.

Table 6: State Budget Allocation for Social Welfare and Education, and Some Other Important Sectors, Development Expenditure, 2000 and 2001 (billion Rp.)

Sector	Realized state budget 2001	Planned state budget 2002	% Change from state budget 2001
Industry	1,538.9	1,536.4	-0.2
Agriculture	3,156.3	3,231.9	2.4
Manpower	193.7	149.9	-22.6
Trade, business, finance & cooperatives	6,244.6	1,238.7	-80.2
Transportation	4,791.6	6,464.5	34.9
Mining & energy	2,490.7	3,507.1	40.8
Education, culture, youth & sport	9,707.4	11,552.8	19.0
Social welfare, health care & women Empowerment	3,774.8	4,304.1	14.0
Others	13,563.4	15,161.7	11.8
Total	45,461.4	47,147.1	3.7

Source: Department of Finance, R.I. (Data Pokok Nota Keuangan dan RAPBN Tahun Anggaran 2002), September 2001, Jakarta.

Table 7: Total Number of Small Enterprises (SEs) by Sector, 1997–2000

Sector	Year				Rate of growth (%), 1997–1998	Average growth rate (%), 1998–2000
	1997	1998	1999	2000		
Agriculture (31)	22,511,588 (56.61)*	23,097,871 (62.74)	23,174,579 (61.21)	23,516,865 (60.24)	2.6	0.9
Mining & quarrying (32)	204,413 (0.51)	137,284 (0.37)	155,988 (0.41)	155,504 (0.40)	-32.8	6.4
Manufacturing industry (33)	2,817,379 (7.09)	2,104,856 (5.72)	2,451,266 (6.48)	2,627,122 (6.73)	-25.3	11.7
Electricity, gas & water supply (34)	13,434 (0.034)	7,319 (0.02)	3,913 (0.01)	4,243 (0.01)	-45.5	-23.9
Construction (35)	199,253 (0.50)	122,945 (0.33)	120,787 (0.32)	136,423 (0.35)	-38.3	5.3
Trade, hotel & restaurant (36)	9,986,510 (25.11)	8,325,351 (22.61)	8,741,176 (23.09)	9,139,645 (23.41)	-16.6	4.8
Transportation & communication (37)	1,852,401 (4.66)	1,507,629 (4.10)	1,679,836 (4.44)	1,872,892 (4.80)	-18.6	11.5
Finance, rental & services (38)	71,334 (0.18)	18,519 (0.05)	18,437 (0.05)	19,440 (0.05)	-74.0	2.5
Other services (39)	2,048,349 (5.15)	1,439,915 (3.91)	1,458,554 (3.85)	1,512,938 (3.86)	-29.7	2.5
Total	39,704,661 (99.84)	36,761,689 (99.85)	37,804,536 (99.86)	38,985,072 (99.85)	-7.4	3.0
Total enterprises in Indonesia (incl. foreign companies)	39,767,207	36,815,409	37,858,166	39,042,079	-7.4	3.0

* As a percentage of total number of enterprises in Indonesia (SEs + MEs+ LEs, including foreign companies).

Source: State Minister of Cooperatives and Small and Medium Entrepreneurs, 2001, Jakarta.

Table 8: Total Number of Medium Enterprises (MEs) by Sector, 1997–2000

Sector	Year				Growth rate (%), 1997–1998	Average growth rate (%), 1998–2000
	1997	1998	1999	2000		
31	1,543 (0.004)*	1,562 (0.004)	1,741 (0.005)	1,751 (0.005)	1.2	5.9
32	504 (0.0013)	555 (0.002)	546 (0.0014)	544 (0.0014)	10.1	-1.0
33	10,495 (0.03)	9,545 (0.03)	9,760 (0.03)	10,460 (0.03)	-9.1	4.7
34	370 (0.001)	375 (0.001)	406 (0.001)	440 (0.001)	1.4	8.3
35	7,811 (0.02)	7,097 (0.02)	6,981 (0.02)	7,885 (0.02)	-9.1	5.4
36	26,944 (0.07)	22,081 (0.06)	21,986 (0.06)	22,988 (0.06)	-18.1	2.0
37	2,432 (0.006)	2,064 (0.006)	2,050 (0.005)	2,285 (0.006)	-15.1	5.2
38	6,023 (0.015)	4,419 (0.012)	4,063 (0.010)	4,284 (0.011)	-26.6	-1.5
39	4,327 (0.010)	4,191 (0.011)	4,265 (0.011)	4,424 (0.011)	-3.1	2.7
Total	60,449 (0.152)	51,889 (0.141)	51,798 (0.137)	55,061 (0.141)	-14.1	3.0
Total number of enterprises in Indonesia	39,767,207	36,815,409	37,858,166	39,042,079	-7.4	3.0

Note and source: see Table 7.

Table 9: Distribution of Workers in SMEs & LEs by Sector, 1997 and 2000

Sector	1997				2000				Average growth rate (%), 1997-2000		
	SEs	MEs	LEs	Total	SEs	MEs	LEs	Total	SEs	MEs	LEs
31	29,277,201 (98.0)	614,188 (2.0)	40,443 (0.13)	29,931,832 (100.0)	32,305,488 (97.7)	730,752 (2.2)	38,127 (0.1)	33,074,367 (100.0)	3.3	6.0	-1.9
32	352,280 (73.5)	115,662 (24.1)	11,617 (2.4)	479,559 (100.0)	433,403 (75.9)	124,764 (21.9)	12,531 (2.2)	570,698 (100.0)	7.2	2.6	2.5
33	6,390,888 (62.0)	3,676,277 (35.7)	242,973 (2.4)	10,310,138 (100.0)	10,527,811 (72.9)	3,664,110 (25.4)	242,169 (1.7)	14,434,090 (100.0)	18.1	-0.1	-0.1
34	64,204 (45.1)	70,411 (49.5)	7,716 (5.4)	142,331 (100.0)	91,149 (49.6)	83,579 (45.5)	9,159 (5.0)	183,887 (100.0)	12.4	5.9	6.1
35	673,308 (66.04)	338,907 (33.2)	7,366 (0.7)	1,019,581 (100.0)	643,742 (64.8)	342,118 (34.4)	7,435 (0.75)	993,295 (100.0)	-1.5	0.3	0.1
36	14,351,830 (89.2)	1,712,591 (10.6)	32,624 (0.2)	16,097,045 (100.0)	16,975,428 (91.9)	1,461,131 (7.9)	27,834 (0.2)	18,464,393 (100.0)	5.8	-5.2	-5.2
37	2,410,042 (90.1)	252,337 (9.4)	12,101 (0.5)	2,674,480 (100.0)	2,333,671 (90.4)	237,063 (9.2)	11,368 (0.4)	2,582,102 (100.0)	-1.1	-2.1	-2.0
38	447,579 (63.8)	242,408 (34.5)	11,852 (1.7)	701,839 (100.0)	241,194 (57.2)	172,397 (40.9)	8,429 (2.0)	422,02 (100.0)	-0.2	-10.7	-10.7
39	3,515,356 (82.8)	703,487 (16.6)	25,943 (0.6)	4,244,786 (100.0)	3,276,004 (81.5)	719,174 (17.9)	26,521 (0.7)	4,021,699 (100.0)	-2.3	0.7	0.8
Total	57,482,688	7,726,268	392,635	65,501,591	66,827,890	7,535,088	383,573	74,746,551			

Source: see Table 7.

Table 10: Estimated Urban Informal Sector Employment in Indonesia (%), 1980-1999 (using 10 years age limit)

Year	Male	Female	Male + Female
1980	39.2	51.2	42.7
1982	34.6	55.3	41.2
1985	38.2	51.8	42.6
1986	40.5	34.7	45.0
1987	40.5	53.1	44.9
1988	42.2	55.2	46.8
1989	41.8	53.8	45.9
1990	40.6	51.4	44.4
1991	41.0	49.3	43.9
1992	41.9	50.8	45.0
1993	41.0	49.2	43.9
1994	39.0	48.4	42.3
1995	36.7	44.8	39.5
1996	39.2	49.2	42.7
1997	39.5	49.2	43.0
1998	43.0	51.0	45.9
1999	42.4	52.0	45.9

Source: Irawan *et al.*, 2000, using series of data from the National Labor Force Survey (Sakernas) and population censuses.

Table 11: Labor Force, Unemployed and Unemployment Rate in Indonesia, 1982–2000

Year	Labor force (thousand)	Unemployed (thousand)	Unemployment rate (%)
1982	59,599	1,796	3.0
1983	58,993	1,182	2.0
1984	61,362	1,278	2.0
1985	63,826	1,368	2.1
1986	70,193	1,855	2.6
1987	72,245	1,842	2.5
1988	74,596	2,078	2.8
1989	75,508	2,083	2.8
1990	77,803	1,952	2.5
1991	78,455	2,032	2.6
1992	80,704	2,186	2.7
1993	81,446	2,246	2.8
1994	85,776	3,738	4.4
1995	86,361	6,251	7.2
1996	90,110	4,408	4.9
1997	91,325	4,275	4.7
1998	92,735	5,063	5.5
1999	94,847	6,030	6.4
2000	95,651	5,813	6.1

Source: BPS, Sakernas, various years.

Table 12: Poverty and Income Distribution in Indonesia, 1986–1999

Indicator	1987	1990	1993	1996	1998	1999
Incidence of poverty (head account index)						
Urban	20.1	16.8	13.5	9.7	21.9	20.0
Rural	16.1	14.3	13.7	12.3	25.7	25.9
Urban + Rural	17.4	15.1	13.7	11.3	24.2	23.6
Poverty gap index						
Urban	3.2	3.2	2.3	1.6	2.5	3.8
Rural	2.8	2.1	2.0	1.8	3.7	4.8
Poverty severity index						
Urban	1.0	0.9	0.6	0.4	1.3	1.1
Rural	0.8	0.5	0.5	0.4	1.5	1.4
Gini index						
Urban	32.0	34.0	33.0	36.0	33.2	32.6
Rural	26.0	25.0	26.0	27.0	25.6	24.4
Urban + Rural	32.0	32.0	34.0	35.6	31.6	31.1

Source: BPS, Susenas, various years.

Table 13: National Social Security Expenditure in Indonesia and Some Other Countries

Country	% of GDP			
	1993	1994	1995	1996
Indonesia				
Total	—	0.02	0.05	0.05
Old-age	—	0.01	0.03	0.03
Survivors	—	0.002	0.002	0.002
Employment injuries	—	0.01	0.01	0.01
Sickness & health	—	0.004	0.01	—
China				
Total	2.55	—	—	—
Old-age	1.63	—	—	—
Medical care	0.05	—	—	—
Employment injuries	0.01	—	—	—
Maternity	0.86	—	—	—
Malaysia				
Total	0.152	—	—	—
Employees' Provident Fund	0.00	—	—	—
Social security organization	0.149	—	—	—
Workmen's compensation	0.00	—	—	—
Public employees' pensions	0.00	—	—	—
Philippines				
Total	3.01	—	—	—
Old-age	0.31	—	—	—
Survivors	0.26	—	—	—
Invalidity	0.11	—	—	—
Funeral grant	0.03	—	—	—
Sickness & maternity cash	0.86	—	—	—
Employees' compensation	0.03	—	—	—
Medical care	0.13	—	—	—
Government service insurance	2.00	—	—	—
Singapore				
Total	—	1.70	1.64	1.68
Old-age	—	1.31	1.25	1.28
Survivors	—	0.11	0.11	0.13
Invalidity benefits	—	0.01	0.01	0.01
Sickness & health	—	0.27	0.27	0.26
Thailand				
Total	0.12	—	—	—
Social security fund	0.09	—	—	—
Workmen's compensation fund	0.02	—	—	—
Benefits paid for accidents in 1992	0.01	—	—	—

Source: ILO, 2001.

Table 14: Number of Membership, TASPEN, 1989–1993 (thousand)

	1989	1990	1991	1992	1993
Government civilian employees	3,738.8	3,771.3	3,917.9	4,090.6	4,121.3
Participating state enterprise employees	169.9	179.4	181.7	186.2	188.0

Source: INSSA, 1995.

Table 15: Number of Claims and Claims Payments, TASPEN Program, 1989–1993

	1989	1990	1991	1992	1993
Number of claims (thousand)					
a. Endowment	44.4	43.6	49.9	57.8	59.1
b. Life insurance	26.4	26.5	27.7	29.5	31.5
Claims payment (thousand Rp.)					
a. Endowment	75,072.6	88,678.3	112,361.1	196,383.6	278,179.5
b. Life insurance	5,414.7	7,219.5	7,876.3	10,191.3	13,512.2

Source: INSSA, 1995.

Table 16: Number of Pensioners and Pension Payments, TASPEN, 1989–1993

	1989	1990	1991	1992	1993
Number of pensioners (thousand)	1,139.9	1,334.2	1,383.4	1,431.5	1,482.5
Pension payments (thousand Rp.)	1,987.4	1,609.3	1,832.8	2,090.8	2,760.6

Source: INSSA, 1995.

Table 17: Coverage of PT ASKES, 1995–1998

Year	Families	Dependents	Total social members	Commercial members*
1995	5,326,994	10,456,941	15,783,935	319,189
1996	5,513,026	10,965,561	16,478,587	491,625
1997	5,451,267	10,402,172	15,853,439	574,621
1998	5,034,450	8,545,541	13,579,991	622,098

* Commercial members are those who joined the scheme voluntarily.

Source: Alkatiri *et al.*, 2000.**Table 18: Number of Participating Health Facilities, PT ASKES, 1993**

1. Primary health services	
– Health centers	10,638
– Family physicians	944
2. Secondary and tertiary care	
– government facilities	336
– military facilities	63
– private facilities	46
– special facilities	51

Source: INSSA, 1995.

Table 19: Number of Members Receiving Benefits and Amount of Benefit Payments, ASABRI, 1990–1994

	1990	1991	1992	1993	1994	Total
Number of members receiving benefits	26,087	28,773	20,419	18,696	15,428	471,350
Amount of benefits payments (million Rp.)	35,005	35,335	32,681	33,841	32,503	325,264

Source: INSSA, 1995.

Table 20: Mandatory Contributions and Subscriptions, 1990–1994, JASA RAHARJA (in million Rp.)

Contribution	1990	1991	1992	1993	1994
Passenger accident insurance	18,425	20,845	21,890	23,843	30,687
Third-party liability insurance	65,049	84,756	92,173	99,428	106,513

Source: INSSA, 1995.

Table 21: Amount of Benefits Increases, JASA RAHARJA, 1990–1994 (in million Rp.)

Contribution	1990	1991	1992	1993	1994
Passenger accident insurance	4,074	5,707	8,597	8,402	8,381
Third-party liability insurance	19,852	28,879	33,098	36,320	41,055

Source: INSSA, 1995.

Table 22: Programs and Contributions of ASTEK and JAMSOSTEK

Programs	ASTEK GR No. 33/1977 (%)	JAMSOSTEK Law No. 3/1992 (%)	Calculation basis
Work accident	0.24–3.6	0.24–1.74	Net-wage
Death (survivor)	0.5	0.3	Net-wage
Provident Fund	2.5	5.7	Gross-wage
Health care	—	3–6	Net-wage
	3.24–6.6	9.24–13.74	

Source: Purwoko, 2001b.

Table 23: Benefits, ASTEK and JAMSOSTEK

	1978–1983	1984–1988	1989–1992	1993–1998	1999
Promised interest (%)	6	8	10	10	17
Survivors' benefit (million Rp.)	0.17	0.4	0.7	1.2–2.4	—
Maximum work accident hospitalization cost (million Rp.)	1.0	—	1.5	3.0–4.0	—
Death benefits due to work accident (Rp.)	21.6 times wage	—	28.8 times wage	36 times wage	—
Orthopedic, wheelchair and optics	Injured employees	—	—	—	—

Source: Purwoko, 1999.

Table 24: Benefits Expenditure and Contributions, JAMSOSTEK, 1995–1998 (million Rp.)

Year	Employment injury (JKK)		Death (JKM)		Health (JPK)		Provident Fund (JHT)	
	Benefits	Contrib.	Benefits	Contrib.	Benefits	Contrib.	Benefits	Contrib.
1995	40,486	97,475	8,569	43,073	35,781	44,365	119,180	456,929
1996	50,313	112,828	9,660	48,295	51,681	64,315	179,186	902,314
1997	71,144	148,306	11,160	62,893	65,629	86,233	239,003	1.139,343
1998	74,330	174,260	12,897	73,480	84,504	105,317	708,081	1.301,436

Source: ILO, 1999c.

Table 25: Membership Growth of SHI program of JAMSOSTEK, 1991–1999

Year	Firm (No.)	Employees (No.)	Insured (No.)	Premium (thousand Rp.)	Claim ratios (%)
1991	723	85,926	199,695	4,553,000	63.9
1992	958	110,345	238,022	8,280,000	62.2
1993	3,419	256,402	537,173	13,657,000	59.1
1994	5,624	458,257	963,619	28,263,000	67.5
1995	8,034	698,052	1,414,175	44,365,000	80.7
1996	9,191	969,519	1,706,115	64,314,000	80.4
1997	10,878	988,946	1,949,051	86,233,060	76.1
1998	14,309	1,129,922	2,224,690	96,691,019	88.3
1999	15,597	1,251,442	2,256,079	134,312,312	76.5
Growth (%)	58.8	44.7	28.9	55.1	72.7

Source: PT JAMSOSTEK, 2000.

Table 26: Non-commercial Credit Programs Funded by the Government through the Bank of Indonesia Liquidity Credit

Value (billion Rp.)	Program	Orientation
675	KKU	Credit for non-collateral micro business
651	KMK-UKM	Working capital credit for SMEs
36	PHBK	Credit for special project that links banks with small business development agencies
94	KSM	Credit for micro activities delivered by rural credit institutions (BPR)
7	PKM	Credit for all members of any cooperatives
1,689	KKPA	Credit for sugar cane workers, transmigrants, overseas workers and low-income workers who need a small size house
139	KKUD	Credit for village unit cooperatives
399	KUT	Farming credit for small farmers
3,689	Total	

Source: Robertson, 1998.

Table 27: Small and Micro-Credit Providers in Indonesia, Some Characteristics

Type of institution	Number	Total amount of loans	Number of borrowers	Average size of loans (% & Rp.)	Savings amount
BRI Unit Desa	3,701	511 billion new lending 32.3 trillion cumulative	2.5 million	14.6%; 500,000 30.3%; 500,000 to 1 million 31.8%; 1 to 2 million	16 trillion
BPR	2,056	2 trillion	2 million	1000000	
Savings & Loan Coops.	37,595	4 trillion		500000	1.3 trillion
Commercial banks	221	45 trillion on small loans		max. 350 million	

Source: Shreshta (1999) and ILO (1999d).

Acronyms

AFTA	–	ASEAN Free Trade Area
AG	–	Attorney General
APBN	–	State Budget (Anggaran Pendapatan dan Belanja Negara)
APINDO	–	Indonesian Employers' Association (Asosiasi Pengusaha Indonesia)
ASABRI	–	Social Insurance Scheme for Members of the Armed Forces (Asuransi Sosial Angkatan Bersenjata Republik Indonesia)
ASKES	–	Health Insurance Scheme for Public Servants (Asuransi Kesehatan Pegawai Negeri)
ASKESOS	–	Health Insurance Scheme for the Informal Sector (Asuransi Kesehatan dan Sosial)
ASTEK	–	Employees' Social Insurance (Asuransi Sosial Tenaga Kerja)
BAPPENAS	–	National Planning Agency (Badan Perencanaan Pembangunan Nasional)
BDS	–	Business Development Services
BPS	–	Central Bureau of Statistics in Indonesia (Biro Pusat Statistik)
BRI	–	Indonesian People's Bank (Bank Rakyat Indonesia)
BRKB	–	Natural Disaster Relief and Rehabilitation (Bantuan dan Rehabilitasi Korban Bencana)
CPI	–	Consumer Price Index
CSO	–	Civil Society Organization
DEPKES	–	Ministry of Health (Departemen Kesehatan)
DEPNAKER TRANS	–	Ministry of Manpower and Transmigration (Departemen Tenaga Kerja dan Transmigrasi)
DEPSOS	–	Ministry of Social Welfare (Departemen Sosial)
DPR	–	House of Representatives (Dewan Perwakilan Indonesia)
FBSI	–	Indonesian Trade Union Federation (Federasi Buruh Seluruh Indonesia)
GBHN	–	Basic Guidelines to State Policy (Garis Besar Haluan Negara)

GDP	–	Gross Domestic Product
Golkar	–	Golkar Party (Partai Golongan Karya)
IDT	–	Presidential Decree Program for Least Developed Villages (Inpres Desa Tertinggal)
ILO	–	International Labor Organization
IMF	–	International Monetary Fund
ITB	–	Indonesian Tripartite Body (Badan Tripartit Indonesia)
JAMSOSTEK	–	Social Security for Private Employees (Jaminan Sosial Tenaga Kerja)
JHT	–	Old Age Benefits Programme (Jaminan Hari Tua)
JKK	–	Employment Injury Programme (Jaminan Kecelakaan)
JKM	–	Death Benefit Programme (Jaminan Kematian)
JKP	–	Health Insurance Programme (Jaminan Pemeliharaan Kesehatan)
JKPM	–	Community Health Maintenance Protection/Insurance (Jaminan Pemeliharaan Kesehatan Masyarakat)
JPS	–	Social Safety Net (Jaringan Pengamanan Sosial)
KADIN	–	Indonesian Chamber of Commerce and Industry (Kamar Dagang dan Industri Indonesia)
KKB	–	Small Business Consultant Clinics (Klinik Konsultan Bisnis)
KUBE	–	Collective Economic Activity Group (Kelompok Usaha Bersama Ekonomi)
KUT	–	Special Credit Scheme for Farming (Kredit Usaha Tani)
LE	–	Large Enterprise
LIK	–	Industrial Estate Services (Lingkungan Industri Kecil)
MENEGKOP & PKM	–	State Ministry of Cooperative and Small and Medium Enterprises (Menteri Negara Koperasi dan Pengusaha Kecil dan Menengah)
MENKEU	–	Ministry of Finance (Menteri Keuangan)
MLE	–	Medium and Large Enterprise
MoIT	–	Department of Industry and Trade (Menteri Perindustrian dan Perdagangan)
MPR	–	People's Consultative Assembly (Majelis Permusyawaratan Rakyat)
MSE	–	Micro and Small Enterprise
NGO	–	Non-governmental Organization
PAN	–	National Mandate Party (Partai Amanat Nasional)
PDI-P	–	Indonesian Democratic Party of Struggle (Partai Demokrasi Indonesia Perjuangan)
PKB	–	National Awakening Party (Partai Kebangkitan Bangsa)
PPFM	–	Assistance for the Poor (Penyantunan dan Pengentasan Fakir Miskin)
PT	–	Perseroan Terbatas
RT	–	Neighborhood Associations (Rukun Tetangga)
SAKERNAS	–	National Labor Force Survey (Survei Angkatan Kerja Nasional)

SHI	–	Social Health Insurance (Asuransi Kesehatan Masyarakat)
SME	–	Small and Medium Enterprise
SP	–	Population Census (Sensus Penduduk)
SPSI	–	All Indonesian Workers' Union (Serikat Pekerja Seluruh Indonesia)
SUPAS	–	Inter-censal Population Survey (Survei Penduduk Antar Sensus)
SUSENAS	–	National Social-Economic Survey (Survei Sosial Ekonomi Nasional)
TASPEN	–	Social Insurance Scheme for Public Servants (Tabungan Asuransi Pegawai Negeri)
UMR	–	Regional Minimum Wage (Upah Minimum Regional)
UPRT	–	Common Services Facilities (Unit Pelayanan Masyarakat)
UPT	–	Technical Service Units (Unit Pelayanan Teknis)

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Social Protection in Lao PDR

Kenneth Thompson

Abstract

Lao People's Democratic Republic (PDR) is a low-income LDC (least-developed country) with per capita income in the US\$300 range. Approximately 38.6% of the population of 5.2 million lived below the poverty line in 1997/98. In 1986, the market economy approach was adopted in the form of the New Economic Mechanism (NEM) with a series of objectives, including the downsizing of the public sector, development of the private sector, privatization of state-owned enterprises (SOEs) and public administrative reform. Higher growth rates have been recorded averaging 5.8% over the period 1980–97, 4% in 1998 and 1999 and improved GDP rates are forecast for 2001 and 2002. Social indicators reflect some progress but there are major concerns over the marked rural-urban disparities in health, education and general living standards.

Since 1986, employees in the public sector were provided with comprehensive social security benefits featuring health care and pensions with high replacement rates. Contributions of 6% of salaries are deducted and paid to the Social Security Fund in the Treasury. The Labour Law, which was promulgated in 1994, stipulates the rules governing contracts and their termination, minimum wages, severance pay and entitlements to social security benefits. This is part of the measures to increase the attractiveness of the private sector and was followed by a decree in 1999 on a comprehensive social security system for employees, including those in SOEs. The initial emphasis is on health care for insured persons and their dependants. Implementation began only in the Vientiane municipality in June 2001. Financing is by employer and employee contributions of 5% and 4.5% of insurable earnings respectively.

The public sector scheme is unsustainable and extensive reforms are planned to establish adequate financing and to equalize the pension ages of men and women at age 60. In time, the two schemes may be merged to create a single scheme for the formal sector workforce. Extension of coverage is a prime objective once the new scheme has completed the initial implementation phase satisfactorily.

Considerable changes are needed with regard to the provision of basic social services and the improvement of human capital if commitments for poverty eradication and equitable socio-economic development, expressed in Lao PDR as human resource development, are to be met. It is proposed in this report that a high-level and representative Social Protection Coordination Commission should be established to address all major issues within a broad framework integrating social, economic and fiscal policies. Such a body operating with a two-tiered structure should have sufficient authority to determine needs and capacities to meet them and to formulate

short-, medium- and long-term plans for future development of appropriate, equitable and sustainable systems of social protection for the country as a whole.

* The exchange rate of the kip against the US dollar at the time of writing was US\$ 1 = 9500 kip.

1. Institutional Framework

1.1 General Political, Social and Economic Framework

Country Overview

Laos is a landlocked country bordered by China, Myanmar, Thailand, Cambodia and Vietnam. In mid-2000, the population was estimated at 5.2 million with a population density of 22 per sq km. Administratively, there are 18 provinces with population density ranging from 152.5 per sq km in the Vientiane municipality to as low as 8.7 per sq km in the Xaysomboun Special Region. About 45% of the population lives in the four most populous provinces. Some areas are remote mountainous regions in which ethnic minorities predominate and where poverty is concentrated. Approximately 12% of the total population lives in the capital, Vientiane.

Lao PDR was established in 1975 by the Lao People's Revolutionary Party who began to build up a centrally planned economy based on the twin pillars of the collectivization of agriculture and state management of the industrial sector. Due to a series of major economic setbacks and problems, the government decided in 1986 to halt the creation of agricultural cooperatives and to adopt the market economy approach in the form of the New Economic Mechanism. The NEM aims to generate rapid economic growth and to significantly reduce poverty in the country. The main policy objectives are extensive and structural reforms, which include measures to downsize the public sector, stimulate private sector enterprises, the privatization of some SOEs and public administrative reform.

In 1986, a system of social protection was introduced for public employees, including civil servants, the military and employees in state enterprises. A new Constitution was adopted in 1991 which accords Laotians specific rights to social protection as follows:

- Article 20 stipulates state responsibility for the provision of medical services and for the social protection of war invalids, of the families of persons who died in the service of the country, or distinguished themselves in its service, and of civil servants;
- Article 26 specifies the right to work, to rest, to medical care in the case of illness, and to assistance in the case of incapacity for work, invalidity, old age or other cases determined by law.

The Labour Law was promulgated in 1994 and constitutes the framework for social protection for the formal sector except for health care since this was provided free through the public health system until 1995. From that date, user charges were in-

troduced from which few exemptions are prescribed. A decree was approved in late 1999 for a social insurance scheme for private sector workers, which came into force in June 2001.

Population and Demographic Features¹

The need and process of developing social protection in Lao PDR have special dimensions due to its status as least developed country in transition to a market economy. The LDC ranking is due to such factors as:

- the per capita income of about US\$300;
- the Human Development Index of 0.465 (gender-related 0.451) reflecting the mortality rates for infants of 93 per 1,000 and for children under 5 years of 150, a maternal mortality rate of 650 per 100,000 births and life expectancies at birth of 52 years (male) and 54.5 years (female) for 1995 to 2000;
- the high incidence of poverty, which was assessed as 46.1% in 1993 (an official estimate for 1997/98 gives the poverty incidence as 38.6% with wide variations from 12.2% in the capital to 74% in an area in the Northern Region).

The 1995 Census found that the population numbered about 4.85 million and it is estimated that the total is now about 5.2 million with 77% in rural areas (reduced from 87% in 1980, see Table 1, Appendix). The population is relatively young with 43.9% under age 15 (42.8% female and 44.3% male) and 51% in the main working age group 15–59 (51.7% female and 50.3% male) (see Table 2, Appendix). The total fertility rate (TFR) per woman was 6.7 in the period 1980–85 but this dropped to 5.8 in 1995–2000 and is estimated as 4.9 in 2000. However, there are marked differences between urban and rural areas as the TFR was 2.8 in the former but 5.4 in the latter.

Favourable trends are seen in health indicators, but the distribution of health facilities is poor, affecting the majority of the population. Although there is a national network of provincial, district and central hospitals, personal health services are greatly restricted by resource deficiencies. Whilst urban dwellers, such as those in the capital Vientiane, have access to hospitals (five of the eight central hospitals are located in Vientiane itself), rural households are severely under-served by basic social services, notably health services. For example, 70% of rural dwellers are more than 3 kilometres from a hospital or dispensary and 49% of villages in rural areas are located two to three days from health-care services. For the country as a whole, skilled health staff attends only 30% of births, and it can be assumed that the proportion in rural areas is extremely low. The urban-rural disparity is illustrated by the following data for 2000:

- infant mortality rates for urban areas of 41.7 compared with 87.2 amongst the rural population;

¹ The main sources for this section are *National Human Development Report*, 1998; *Country Strategy Note Lao PDR and the UN until 2000*, 1996; *Basic Statistics of the LAO PDR*, 2000; ILO, 2000; and World Bank, 2001. Data is provided in the Appendix.

- maternal mortality rates of 170 and 580 per 100,000 births, respectively, for urban and rural areas;
- lower life expectancy at birth in rural areas with the extreme of ten years difference for males and nine for females between the least developed province and the capital city.

Reductions in fertility and mortality rates are reflected in the changes projected in the proportion of young and older persons in the population (see Table 1, Appendix). For example:

- the youth dependency ratio is now about 83.4% and a decline to 72.3% is foreseen by 2010 and to 51.9% by 2030;
- the population over age 60 is only about 5.3% at present for both sexes, which is expected to rise to 5.6% by 2010 and 7.4% by 2030, causing the old-age dependency ratio to rise from 6.3% to 6.5% in 2010 and 7.9% by 2030.
- the total dependency ratio will therefore decline from about 89.6% in 2000 to 78.8% by 2010 and 59.7% by 2030.

For the immediate future the main priorities are for primary education, health and labour market policies. Planning for population ageing is another emerging priority, which is evident in the plans for higher female pension ages (see Section 2.1.2).

Educational progress is limited and gender disparities are apparent. In 1998, the adult literacy rate was 82% for males over age 15 and 55% amongst females. Net enrolment ratios (both sexes combined) have shown some improvement, as comparing 1997 with 1980 they have increased from 72% to 73% at the primary stage but from 53% to 63% at secondary level (see Table 8a, Appendix). The percentages reaching grade 5 in 1996 were 57 for males and 54 in the case of females (see Table 1, Appendix). The average number of years of schooling in 1998 was three for females and four for males, but the 15–19 years age group attended for one year longer. However, school periods were much shorter for the majority of children and youth in rural areas (see Table 8b, Appendix). With donor support, more village schools are opening up in previously deprived areas to encourage enrolments and longer periods of education, especially amongst girls.

Macro-Economic Framework

Relatively high economic growth rates were achieved with GDP (Gross Domestic Product) increasing by an annual average of 5.8% between 1980 and 1997. Real GDP per capita tripled in the period from 1989 to 1996. Changes in the composition of output occurred over the 1980 to 1997 period including a reduction in the share of agriculture from 61% to 52% and an increase from 11% to 21% for industry, due mainly to rises in manufacturing, especially garments, and construction, and in services, which rose markedly to over 25%. The main increases were in trade and transport. Real GDP increased by 7.3% and 5.8% in 1999 and 2000, respectively (see Table 5, Appendix) with industry recording the highest growth rates of 8% and 7.6%, respectively.

International donor support and foreign investments have played crucial roles in recent years. Grants from abroad over the period 1996/97 to 2000/01 averaged 3.7% of GDP compared with 12% for government revenue. Nevertheless, total annual revenues from taxes and grants have fallen short of expenditures for some years. For example, whilst revenues and grants over the period 1996/97 to 1999/2000 have averaged 15.86% of GDP, the equivalent percentage for expenditures was 21.84. Main tax revenues are from turnover tax, profits tax and excise tax, and more effective enforcement is planned to boost collections since the limited taxable capacity is a constraint on the government's development plans. Approved foreign investments for the period 1997 and 1999 ranged between US\$113.8 million to US\$122.5 million per year but only US\$24.6 million was recorded for the first nine months of 2001.

Lao PDR joined ASEAN (Association of Southeast Asian Nations) and AFTA (ASEAN Free Trade Area) in 1997 and is committed to reducing trade barriers by 2006. About 70% of trade is within ASEAN, but, with growing international links, Lao PDR has applied to join the WTO (World Trade Organization). Some exposure to regional economic trends following the Asian financial crisis in 1997 has resulted in lower growth rates averaging 4% in 1998 and 1999 (see Table 4, Appendix). The government forecasts increases to 5.84% in 2000 and 6.65% in 2001. The CPI (Consumer Price Index) rose from 100 in December 1995 to 712.8 five years later (see Table 6, Appendix). However, by late 2000 the inflation rates were moderating and fell to 27.1% for 2000. Average inflation levels are projected to rise with an expected growth in imports.

Public expenditures on education, which are heavily dependent on donor support, were only 2.1% of GDP in 1997 and health expenditures averaged 1.2% of GDP over the period 1990 to 1999. In contrast, military expenditures reached 9.8% of GNP in 1992 and were 3.4% in 1997.

Labour Market Structure

The labour force numbered approximately 2,166,000 at the time of the 1995 Census with over 78% engaged in agriculture. Labour force participation rates for males are about 90% compared with 77% for females. The total participation rate was 83.8% in 2000 and was projected to fall slightly to 83.4% by 2010 (see Table 3a, Appendix). The non-agricultural sector was estimated to have the following composition in 1997²:

- public sector 70,000;
- military and police 80,000;
- private sector 183,000.

Precise recent information is lacking on the informal sector but it is understood to provide the livelihood of a significant proportion of the labour force. The last full-

2 Main source: *Report to the Government on the Actuarial Valuation*, 1999.

scale survey in 1994 found that about 43% of urban employment was in the informal sector. Further details are given in Section 2.2.1.

Despite plans to downsize the civil service, it had grown to 91,144 by the end of 2001, or 29% more than in 1995 when public administration reform was launched. A process of devolving functions to local government has contributed to the increase in numbers. Currently, only 20% of civil servants are assigned to the administrative centres and 80% work in provincial and district areas. The aim now is to reduce the number of civil servants by 5% by 2005.

Distribution of Income and Allocation of the Budget

The prevalence of poverty is a serious concern and is at the core of development policy for government and international donors. The data available dates from the early 1990s when the rural incidence of poverty was 53% and urban was 24% giving a national average of 46.1%. The Gini Index was 30.4 in 1992 as income distribution was as follows:

- the lowest 10% had 4.2% compared with 26.4 % for the highest 10%;
 - the lowest 20% had 9.6% of income compared with 40.2% for the highest 20%.
- Further details are found in Table 7, Appendix.

1.2 Availability and Quality of Data

There are extensive limitations in statistical systems in Lao PDR, which hamper all types of planning for development in the country. These are manifest with regard to labour market information. Presently, data is gleaned from Urban Labour Force Surveys but these have not been conducted regularly (official reports still quote 1994 Census data and the labour force survey of 1995). There are no legal requirements for employers to report vacancies to employment exchanges or for the unemployed to register for work. Establishment surveys also have been lacking due to the Register of Enterprises becoming obsolete. This has been rectified and survey data should become available on a systematic basis. Education statistics have been more reliable although affected by technical problems in achieving satisfactory reporting standards.

The National Statistical Centre as the main government body in this area has drawn up plans for comprehensive improvements, including the approval of the necessary legislation for the collection of statistics. Budgetary resources are lacking for the implementation of these changes.

1.3 Existing Institutional Framework

The 1994 Labour Law stipulates in Article 11 that “A trade union shall be established in all labour units in accordance with specific regulations of the sectors concerned. Where there is no trade union, workers’ representatives shall be established”. The Article includes negotiation with employers on social security matters as part of the responsibilities of these representatives.

The mass organizations function under the direction of the Party and these include the Lao National Front for Construction, the Lao Women's Union (LWU), the Lao People's Revolutionary Youth Union and the Lao Federation of Trade Unions. The Lao Federation of Trade Unions (LFTU) is active in tripartite circles and is represented on Boards such as the Social Security Board. The main employers' group is the Chamber of Commerce and sections are industry-wide such as the division responsible for the garment industry. The LWU is organized at four levels – village, district, provincial and central – and is very active throughout the country. The Lao National Front for Construction is responsible for relations with the ethnic minorities living in the highlands.

The formation of associations must be monitored by a government agency, which restricts the development of NGOs (Non-Governmental Organizations), but international NGOs work closely with mass organizations. For example, the LWU is involved in development projects at community levels and is the governmental partner for activities of international NGOs, including micro-finance and income generating programmes. Cooperatives are missing from the scene due to their negative public image after the collapse of the 3,000 or so agricultural cooperatives set up between 1975 and 1977. Instead, savings and credit unions have been established widely throughout the country.

Tripartism is seen in the context of social protection by the composition of Project Steering Committees on a tripartite basis. One example is the Project Steering Committee (PSC) for the UNDP/ILO (United Nations Development Programme/International Labour Organization) project on the Development of Social Security, which made important recommendations for the type of social insurance scheme to be implemented in Lao PDR.

1.4 Government Support

The planning of social protection does not take place in a vacuum as the social and economic aspects are inter-linked. There is a need for collaboration in and consistency with the strategies for various other important relevant programmes and government initiatives. Lao PDR, in common with other low-income and transition economies, is engaged in extensive developmental activities originating internally, and those derived from commitments made to achieve various targets established at international conferences. The latter are listed below. A number of developed countries and international NGOs have established priority programmes in Lao PDR in relation to some of these objectives:

- A reduction by one-half in the proportion of the world's population living in extreme poverty (from one-quarter to one-eighth) by 2015;
- Allocation of at least 20% of government budgetary expenditures and 20% of official development aid to basic social services as soon as possible and preferably by 2000;
- Demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005;

- Universal primary education in all countries by 2015;
- A reduction by two-thirds in the mortality rates for infants and children under age 5 and a reduction by three-fourths in maternal mortality, all by 2015; and
- Access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than by the year 2015.

The government's commitments to eliminate mass poverty and to break the vicious circle of underdevelopment by 2020 have been translated into a number of goals which include the allocation of more than 20% of public expenditures and investments to education, health and welfare. There are eight national priority programmes amongst which human resource development (HRD) is understood in Lao PDR to mean the government's intention to enlarge socio-economic development for the well-being of the population as a whole. HRD is defined in Lao PDR to include health, education, employment and social security, as well as public administration and the development of children, youth and women. In summary, the concept of HRD encompasses social protection and provides a framework for the formulation of government policies for the development and extension of suitable systems for the different sections of the population.

1.5 Traditional and Contemporary Perception of the Social Protection System

In common with other low-income countries, large sections of the population in Lao PDR who live in rural areas engaged in subsistence farming, and those working in the informal sectors are outside the scope of any statutory or other organized systems of social protection. Furthermore, there are no crop or livestock insurance schemes. Households live within narrow limits. Remittances from relatives abroad are a virtual lifeline for many families but are not guaranteed and fluctuate according to economic changes in the countries concerned. These persons can only rely on their savings, if any, and family and community solidarity in times of need. Households are vulnerable to many risks, such as crop failure, illness, loss of income and food from work, and death; they follow the traditional approach to coping with a crisis or emergencies by turning to family support in the first instance and secondly to the community for assistance on the basis of mutual obligation. This is generally accepted by rural populations being largely unaware of alternative approaches and with low expectations of significant reductions in their vulnerability.

In this connection, Decree No. 102/PM of 1993 states that any geographical area comprising over 20 houses, or with a population exceeding 100 persons, is classified as a village and as such elects a chief every two years. His duties include the management of social organizations and assistance to the poor, disabled, the elderly, widows and orphans. When a death occurs, the chief may call a village meeting to discuss how they can contribute towards some financial support for the bereaved family.

The Rural Household Finance Survey (UNDP and UNCDF) in 1997 showed the ability and willingness of the rural population to save on a regular basis. However, the

average deposit levels were very low. A survey on savings habits in two provinces in 1998 found that despite poverty all rural households had some financial savings held in cash and a few assets such as precious metals and livestock. The purpose is to provide for emergencies, including the costs of medical care, and expensive social events such as weddings and funerals. Another traditional practice found more in urban areas is the savings club, which provides each member in turn with the 'pot' of the total monthly contributions.

Considering the very low income levels and the extent of dependency in households it is clear that savings can only be marginal and that individuals remain very vulnerable to the multiple risks faced by poor communities. At the present stage of social and economic development there is little expectation of government social assistance, subsidies or earmarked funds other than certain types of micro-finance programmes to deal with acute poverty and some public works projects. Coping through family and community solidarity has definite limits especially when covariant risks occur. The outcomes of serious or prolonged household crises may well be disposal of scarce assets, taking a child out of school to work, and an increase in indebtedness.

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

Due to the lack of data and information, it is difficult to distinguish between the formal and informal sectors as precisely as desired, since at the current stage of development of the private sector it is described as a mixed set of formal companies and informal enterprises with multiple forms of ownership and different forms of linkages with the government.³ The available official data on the urban employed population in 1994 given in Table 3b, Appendix, indicates the relative sizes of the formal and informal sectors at that time.

The public sector had 91,144 civil servants in central and local government by the end of 2001. Growth in the private sector has been assisted by foreign investments and these trends can be expected to continue, although not easily predictable due to the many factors affecting the supply of capital from abroad. The growth in wage employment is significant as the dependence on money incomes increases the needs for social security protection. The SOE privatization programme started in 1994 rapidly reduced the number of SOEs from about 600 to about 90. In the longer term it is envisaged that a core group of 29 strategic SOEs, including state banks, will remain. SOEs ceased to be part of the public sector in 1994 when the Labour Law was promulgated for the non-public sector. Recently, the privatization programme slowed down as many were only leasing arrangements. Consequently, the sector

³ The main source on this subject: *The Banking and Financial Sector of Lao PDR Financial Sector Note*, 2001, with additional information obtained from various reports by the Ministry of Industry and Handicrafts.

contains SOEs, leased SOEs, joint ventures between foreigners and either the government or Lao companies, wholly owned foreign firms and domestically owned firms.

Enterprise size distribution was recently estimated as follows:

- 95 companies with more than 100 workers;
- 512 enterprises with 10 to 99 workers;
- approximately 20,962 concerns with 1 to 9 staff, many of which operate in the informal sector.

Promulgation of the Labour Law in 1994

In 1994, the Labour Law came into force. It applies to the private sector and SOEs, including the civil service and the Armed Forces, and remains the basic law for social protection of this section of the population. Its effect was to separate SOEs from the social security scheme for the public sector described in Section 2.1.2 leaving the continued coverage of their staff dependent on any new scheme introduced within the framework of the Labour Law. Implementation of the Labour Law was entrusted to the newly established Ministry of Labour and Social Welfare (MOLSW).

The Labour Law regulates employment conditions and stipulates the rights and obligations of employers, workers and the system of labour administration. The form and nature of employment contracts are specified and the rules on dismissals are set out together with those on labour protection. Severance pay and minimum wages are prescribed. The right to organize and to belong to mass organizations that have been formed lawfully is laid down in Article 3.

The Labour Law stipulates the responsibility of enterprises to provide social security protection especially through the provisions in Article 48 'Each labour unit⁴ in the socio-economic sectors shall establish a social security fund or pay contributions to a compensation fund to ensure the living standard of its workers in accordance with the social security system. Workers and employers shall contribute to the social security fund in accordance with regulations adopted by the government. Where the employer has paid contributions to the compensation fund and the social security fund, these funds shall be entirely responsible for providing social security coverage to workers.' Other relevant provisions are outlined in the following paragraphs.

Sickness Protection. Article 29 provides monthly paid workers with an entitlement to 30 days sick leave on full pay per year, which is available also to hourly and daily paid and piece-rate workers who have more than 90 days service. Sickness lasting more than 30 days becomes the responsibility of the social security system.

Maternity Protection. Under Article 36, women workers are entitled to maternity leave on normal pay for 90 days from their employers or the social security fund if contributions have been fully paid, which shall include post-confinement leave of at

⁴ According to Article 5 of the Labour Law 'labour units' refers to 'all workers and employers who carry on activities in any socio-economic sector'.

least 42 days. A maternity grant of at least 60% of the minimum wage is also payable and that is increased by 50% for additional births.

Employment Injury Protection. Articles 51–53 deal with occupational injuries and prescribed diseases. Medical expenses for immediate and continued treatment are the responsibility of employers plus payment of funeral grants and lump sum benefits in the event of death. Article 53 specifies the following cash benefits to be paid by either the employer or the social security fund:

- Full pay for up to six months whilst undergoing medical treatment and rehabilitation and then 50% of salary or wages for up to 18 months;
- It is then stipulated that ‘after 18 months, social security benefits shall be granted’ which leaves open the question of how this could apply to uninsured workers;
- If disabled, workers or their heirs are entitled to compensation as specified in the regulations.

Old-age Protection. Article 54 sets out the rights to retirement pension as conditional upon satisfaction of the following conditions (persons failing these conditions are entitled to lump sum compensation):

- attainment of ages 60 (men) and 55 (women);
- completion of 25 years of service;
- the above are reduced to ages 55 (men) and 50 (women) and 20 years service for persons who worked for over five years continuously in hazardous employment, and
- payment of social security contributions for 25 years, or 20 years for persons who worked for over five years continuously in hazardous employment.

This legislation has acted as a guide to enterprises that were considering the question of how to protect workers in various contingencies. However, it does not include needs for medical care that was provided free in 1994 by the public health services. The change of policy requiring user charges occurred in 1995 and there is no provision for health protection although only the very poor, students and monks are exempt from user charges.

In fact, in the absence of a health insurance scheme, enterprises were soon faced with the problem of heavy costs incurred by workers with serious illnesses and had to resort to salary loans in most cases. In a few instances, small health insurance funds were also established for this purpose. To some extent the Labour Law provisions on enterprise responsibility for social security arrangements inspired the latter. Overall, the absence of detailed rules on benefits and contributions limited the impact of the social security provisions in the Labour Law pending the introduction of a social security scheme for the private sector. This took place from June 2001 initially with respect to enterprises with 100 or more workers, as outlined in Section 2.1.2.

2.1.2 Social Insurance and Savings Schemes

Overview of the Public Sector Scheme

The social security system for civil servants, army, and public employees introduced in 1986 covers sickness, invalidity, maternity, old age and death. These benefits were provided as a benefit of service until December 1989 when the law was changed, requiring civil servants to contribute 6% of their salaries to the Social Security Fund to continue coverage. However, the fund was only established in the Treasury in 1992. The implementation of the scheme is the responsibility of MOLSW. The main features of the benefits are the following:

- **Medical care** for civil servants (both active and retired), military and police, spouses and children up to age 18 consists of medical consultations, tests, medicines, X-rays and artificial limbs on the basis that the Ministry of Health (MOH) covers the costs of hospital accommodation, food and other services;
- **Sickness benefit** is payable to civil servants who are entitled to full salary for 30 days per year, followed by 60% of salary and if hospitalized to 30 days at full salary and 80% for 12 months; there is also entitlement to 30 days at full salary if an infant child is sick;
- **Invalidity benefits**⁵ are payable at the rate of 70% of the last basic salary to persons with more than five years of service who are certified as having lost more than 80% of their working capacity;
- **Maternity benefits** consist of three months leave on full pay, a grant of 60% of basic minimum salary, and medical care costs up to statutory limits;
- **Survivor's benefits** are payable to the surviving spouse in the form of a funeral grant (basic salary of the last 10 months or 12 months of the basic minimum salary in rural areas) and a lump sum of between six and 15 times the last monthly basic salary according to length of service;
- **Employment injury benefits**, which are mainly paid to war veterans, consist of medical care (in accordance with stipulated amounts for each type of service), full salary for up to six months and 80% for a further six months, which is followed by invalidity pension. Additional allowances are paid to retired or working invalids, including war invalids, residing in invalidity centres or returning to rural areas; and
- **Retirement pensions** after 25 years eligible service and attainment of ages 60 (men) and 55 (women). For civil servants the pension is 75% of their basic pre-retirement salaries plus 1% for each year up to a maximum of 90% of salary and a lump sum of 15% of the last drawn basic salary⁶ per year of service.

5 Invalidity benefits have replaced convalescence allowance except for those persons who had their entitlement on 1 January 1994 and those with 20 years service who have not yet retired.

6 The qualifying period is reduced to 20 years and pension ages to 55 (men) and 50 (women) for revolutionaries and persons who worked in hazardous conditions for five years or more, and the benefit is 75% per cent of the last basic salary after 20 years service plus 1% per additional year up to the maximum of 90%.

In addition, there are **child allowances** of monthly sums for civil servants and pensioners for each child under age 18. Severance payments in the event of voluntary retrenchment are at the rate of one month's salary per year of service plus one month's salary and one year's child allowance, and housing and education assistance. The rules for short-term benefit payments are not applied because of the low salaries in the public sector. Pensions in payment are fully indexed to the last salary grade of retirees and clearly are the major item of expenditure (details are in Table 9, Appendix).

The scheme is not sustainable as there is no system of funding, leaving the state budget to subsidize up to 70% of the expenditures in the past two years. The employee contribution of 6% of earnings is not based on any financial estimates and the income is used to meet short-term costs of the medical scheme. Options for reform have been under consideration for some time. The principle of equalization of male and female pension ages at 60 years is included in the plans for restructuring.

Social Insurance Protection for the Private Sector

Main provisions. The Decree No. 207/PM of 1999 provides for nine social security contingencies plus a death grant. The provisions introduce all but child benefits and unemployment insurance. The latter are to be brought into being at a time to be determined in the future. The decree is based on the Labour Law and integrates relevant benefit provisions with those under the Decree.

The administration of the scheme is entrusted to the Social Security Organization (SSO) as an autonomous body under the MOLSW with appropriate powers and responsibilities. Its Board has 11 directors consisting of three representing the government, four the employers and four the employees. The Minister submits the list of candidates for the approval of the Prime Minister. The Board elects its own Chairman and Vice-Chairman. Its main responsibilities are to 'serve as the logistical arm of the Ministry of Labour and Social Welfare in the consideration and adoption of short-, medium- and long-term social welfare plans' and to undertake important functions such as determining the contribution rates and the administrative expenses of the SSO under the final authority of the Minister in accordance with the provision that these expenses shall not exceed 10% of the total revenue of the scheme.

The regulations stipulate that the SSO is legally and financially independent of the government but responsible to the Minister to whom it must submit its annual reports and audited accounts. The scheme is backed up by the financial guarantee of the state.

The legislation is applicable to enterprises with ten or more employees including their branches with fewer than ten staff. Regulations limit the initial coverage to enterprises with 100 or more employees in the Vientiane Municipality. There are 80 such enterprises with an estimated 60,000 employees. The implementation commenced in June 2001. Voluntary insurance by enterprises is permitted and once accepted this, in effect, becomes compulsory and permanent. Any economically active person

can apply for voluntary membership and if accepted will pay both employer and employee contributions.

By November 2001, 70 large enterprises in the Vientiane Municipality had registered with over 20,000 workers of whom 61% were female. Some of these firms have fewer than 100 workers but are keen to join. In some cases this is in order to continue previous coverage under the public sector scheme as SOEs. Enforcement procedures are being developed in order to cover all liable companies in the near future. The preponderance of women is mainly due to the inclusion of the large garment factories that supply the export trade. Contributions for 13,213 workers were paid by 60 employers. The income and expenditure is given in Table 10, Appendix. The main costs have been capitation payments to the accredited hospitals.

Finance. The Decree provides for a self-financing scheme through the collection of contributions and receipt of other revenues for allocation to the following autonomous funds under the control of the SSO:

- Health insurance;
- Short-term benefits;
- Employment Injury;
- Pensions.

The rates of contributions are determined by the Board on the principle that the employees' share shall not exceed 50% of the total after making it clear that contributions for employment injury insurance are the sole responsibility of employers. Following an actuarial valuation, the contributions were determined as follows:

Table 1: Total Contribution Rates

Benefit	Rate	Employee	Employer
Health care	4.4*	2.2	2.2
Sickness	0.9	0.45	0.45
Maternity	0.7	0.35	0.35
Birth grant	0.4	0.2	0.2
Death grant	0.4	0.2	0.2
Employment injury	0.6		0.6
Pensions	2.2	1.1	1.1
Total	9.5	4.5	5

* Figures and totals are rounded and may not add up exactly.

Different financial systems are in operation for each Fund, appropriate to the characteristics of each benefit. For pensions, an intermediate system of funding, termed the scaled premium system, was selected between pay-as-you-go on the one hand and full funding on the other. Contributions will increase from time to time in future years. Regulations lay down financial rules for the maintenance of contingency and technical reserves and the principles for investment of social security funds. Actuarial valuations are required at five-year intervals as a minimum.

Health Care. The insured person, spouse and children, who must be under age 18 or under age 25 if undergoing full-time education (with no age limit for disabled children who are incapable of self-support), are entitled to medical care, consisting of medical consultations, treatment as out- or in-patients and approved medicines, provided that the insured person has paid contributions for a minimum of three months in the preceding 12 months. No co-payments are required for any of these services nor do patients meet costs and claim reimbursement, as under the public sector scheme. Medical providers are paid through regular capitation payments from the Health Insurance Fund maintained by the SSO.

Sickness Benefit. Decree 207/PM coordinates the sick leave entitlements under the Labour Law and the Decree in the following system of benefits:

- after expiry of the 30 days sick leave per year on full pay liability of employers under the Labour Law, the scheme will pay 60% of insurable earnings averaged over the last six months subject to a contribution condition that a minimum of three months contributions were paid in the last 12 months;
- the duration of benefit is given as one year at which point medical advice is to determine whether benefit should continue in expectation of recovery or a claim should be made for invalidity benefit;
- benefit is also prescribed for partial incapacity after a period of being entitled to sickness benefit when the insured person is unable to resume his or her normal duties, at the rate of 60% of the difference between the old and the new insurable earnings.

Maternity Benefits. Benefit is payable for childbirth, miscarriage and adoption subject to a contribution condition of at least nine contributions in the last 12 months. The rate is 70% of insurable earnings averaged over the last six months payable for three months. Extension of the sickness benefit rate is allowed based on medical advice. Under the regulations, employers are required to top up the SSO benefit to 100%. Adoption is included where the child was under 12 months old. Maternity grant of 60% of the minimum wage is payable per newly-born child to an insured person or the wife of an insured person provided that at least 12 contributions have been paid in the last 12 months.

Death Grant. Subject to a contribution condition of at least 12 months contributions in the last 18 months, which is waived for current beneficiaries, death grants are payable to relatives who are responsible for the funeral ceremonies of the following amounts of insured earnings:

- six months with respect to the death of an insured person;
- three months on the death of the spouse;
- two months for the death of a child as defined in the Decree.

Employment Injury Protection. The contingencies covered in this branch are temporary incapacity, need for medical care, permanent partial disablement, permanent total disablement, and death. The main principles are:

- no fault coverage for all accidents which could reasonably be accepted as arising out of and in the course of employment, which may include commuting accidents;
- employees facing risks of occupational injuries are protected without contribution conditions from the first day of insurable employment;
- financing is solely by employers;
- the medical and cash benefits should be provided throughout the contingency and should extend to medical and vocational rehabilitation.

The main features of the benefit system are:

- temporary incapacity benefit is an employer responsibility, comprising full salary or wage for a maximum of 30 days. After this, the SSO is liable to pay 100% of insurable earnings, as averaged over the last six months, for a maximum of six months. This may be followed by a further period of 18 months with benefits at the rate of 60%;
- as under the sickness benefit provisions, there is provision for a return to work even if the person is unable to return to former duties and for SSO to make up the difference between the old and the new wages;
- claims for permanent disability have to be dealt with by medical boards to determine the degree of disability, which determines the proportion paid; the benefit rate is calculated by multiplying 67.5% of insurable earnings, as averaged over the last 12 months, by the degree of disability;
- persons adjudged to require the services of a caregiver can receive benefit based on the minimum wage according to the number of hours of care-giving;
- in case of death from employment injury, death grant is payable of six months insured earnings and survivors' benefits as outlined below:
- if the deceased had paid a minimum of five years contributions, adaptation benefit of 80% of the insured earnings, as averaged over 12 months, for up to 12 months to a spouse and eligible children (this is to ensure the same entitlement as provided by the Pensions Branch), which may be succeeded by the longer term benefits described below where there are eligible survivors;
- for the following benefits, survivors are defined as follows:
 - as the spouse, being the wife aged 44 years or more, or who has one or more minor children (defined in regulations as children under age 15) or who is disabled and unable to work or the husband who is disabled and unable to work;
 - if no spouse, parents who were supported by the deceased (the regulations stipulate 'main source of financial support') and who meet the qualifying rules, and
 - children of the deceased, stepchildren and adopted children;
- survivors' benefits are calculated from the average of the insured earnings over the last 12 months and consist of pensions up to a total of 100% of the rate of permanent total disablement benefit applicable to the deceased, of 50% for the spouse or parent and 15% per child, or 20% if no spouse or parent, up to a maximum of 60% for children.

Pension Protection. Old-age, invalidity and survivors' benefits should be integrated into one pension system. In the case of *old-age pension*, the Decree prescribes pen-

sion age as 60 years for men and women and the qualifying period for pension as five years pension insurance. Persons reaching pension age with shorter periods of insurance qualify for lump sum payments in lieu of pensions. Pension rates are determined from the number of accumulated pension points, the total average earnings and the accrual rate of 1.5%. Early claims are permitted from age 55 subject to the reduction of pensions by 0.5% per month between the month the pension commences and the month age 60 will be attained. Deferred retirement is rewarded by increasing the pension by 0.5% for each month of continued employment beyond age 60.

Pension points are derived each year from dividing the annual average earnings by the total average earnings of all insured persons.⁷ Older persons joining the scheme may have difficulties in accumulating enough pension points to qualify for adequate pensions and therefore pension points to the value of 0.8 per year are credited to persons who are 31 years old or more when first registered. These are allocated according to age on entry as follows:

- the number of pension points is calculated for persons aged 31 to 45 by deducting 30 years from their ages; and
- persons aged 45 or more shall receive free pension points for 15 years.

Pension points of husband and wife are to be divided in the event of divorce before pension age to the extent of the duration of the marriage within the insurance period. For divorces after pension age the pension shall be divided according to the divorce decision.

Survivors' Benefits. On the death of an insured person who has paid contributions for at least five years, or a pensioner, the eligible survivors shall be entitled to benefits as follows:

- Adaptation benefit of 80% of the insured earnings, as averaged over 12 months, for up to 12 months to a spouse and eligible children, which may be succeeded by the longer term benefits described below where there are eligible survivors;
- Widow or widower benefit for the widow if aged 44 years or more, or has one or more minor children (aged under 15 years), or is disabled and unable to work, or the widower who is disabled and unable to work at the rate of 60% of the deceased's pension or pension rate (the extent of disablement must be 66% or more);
- Children of the insured person, or step children or adopted children who are within the age limits of 18 years or 25 years if under full-time education, with a disabled child who is unable to work included without age limit, are entitled to 20% of the deceased's pension or assumed invalidity rate up to a maximum of 60% for children;
- The widow/widower and children's benefits are subject to an overall maximum of 80% of the pension rate or 100% of the invalidity pension rate which would have been payable if the insured person had qualified for such pension prior to death.

⁷ Periods of non-payment for any reason are excluded from the calculation but periods in receipt of sickness, maternity, temporary incapacity, permanent disability benefits for 60% disability or more and caregiver benefits qualify for inclusion.

Invalidity Benefits. The definition of invalidity in Article 96 is that an insured person ‘cannot fulfil his duties and undertake his work tasks attributable to ill health or disability and that the SSO has evaluated that the relevant person is unable to work’. The contribution condition for pensions is that at least five years’ contributions have been paid. Lump sum benefits are due for shorter periods of insurance. Invalidity benefit is calculated in the same way as old-age pension plus the addition of the remaining period up to age 60 as insurance years. Caregiver benefits are provided if necessary on the same basis as for employment injury victims. The Decree provides for medical care and rehabilitation and sanctions in the form of benefit reductions or termination for persons who refuse these services. The invalidity pensions are converted into retirement pensions at age 60.

2.1.3 Social Assistance and Services: Benefits and Transfers

The MOLSW is responsible for social welfare and operates very limited programmes. These programmes cover disaster relief, reintegration of refugees and assistance to orphans and children in difficulties. These activities respond to donor priorities and rely heavily on external financial support and grants. The Decree No. 52/PM of 1995 on health financing exempts monks, students and indigents from payment of user charges. There are few other free or subsidized services. Poor villagers tend to utilize local pharmacies, licensed or not, when sick rather than take the time and pay the costs of transportation to and the charges levied by health facilities that usually lack essential medicines.

The rudimentary nature of social welfare leaves the responsibility for the care of destitute persons and those suffering from temporary financial hardship with families and communities.

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

The growth of the informal sector is a fact of life in developing and transitional economies with the effects of downsizing of the public sectors, the drift away from agriculture and the limited capacity for absorption in the emerging private sectors. According to various surveys, in 1993 the informal sector provided the livelihood of about 14% of the national labour force comprising all types of small-scale private business activities, small shops, street vendors, crafts, repair shops and similar micro-enterprises. The 1994 Urban Labour Force Survey used the international definition for the informal sector established by the 15th International Conference of Labour Statisticians in 1993. This refers to two characteristics: a private non-agricultural business which is household-operated and has no more than five paid employees.⁸ The results of the survey are given in Table 3b, Appendix.

In terms of the current status definition about 43% of urban employment was classified as informal and 53% formal with 4% engaged in small-scale agriculture. Women

⁸ ILO/EASMAT, 1996.

accounted for 61% of informal sector workers. Industry-wise, the main sector is wholesale and retail trade followed by construction, hotels, restaurants, business services, manufacturing and transport. Self-employed persons constitute 72% of the informal workforce and unpaid family workers account for 17%. Wage levels were about 15% lower on average than in the formal sector although working hours tend to be about 11% longer for informal sector workers. Up-to-date information is lacking but some of the more general information on types and conditions of work may be valid today.

A later study in 1996 found about 146,000 small and micro enterprises employing 260,000 persons including home-based units. Only 10% had paid employees. The main activity was wholesale and retail trade followed by handicrafts, services and transportation.

2.2.2 Problems and Features of the Informal Sector

Longer hours, lower pay, lack of job security, absence of any welfare provisions, poorer working conditions and exposure to higher levels of risk are all features of informal sector employment. This may be defined as that segment of the economy and labour market characterized by very small production units, own-account workers and the low-income self-employed in household and micro-enterprises. The main features are:

- low levels of capital, skills and technology;
- operating outside the scope of regulations on business registration, labour and social protection;
- low and unstable levels of income, especially amongst employees, with the owner liable for gains and losses; and
- poor working conditions.

Due to the lack of capital, small and micro-enterprises function with a minimum of technology and chronically low productivity. The reasons for persons seeking work despite these obvious drawbacks are deficiencies in building up human capital through adequate educational systems and training schemes, and the limitations of labour market information. For example, school leavers often are ill equipped to find work in formal sector enterprises where they could have opportunities to improve marketable skills. Furthermore, due to the weaknesses of employment services in providing information on job vacancies, and the lack of training schemes to assist workers with their job search, retrenched workers with little or no financial benefits are often forced to take the first available option to maintain earning levels and ensure continued membership of social security schemes. Such persons can subsequently become trapped and lose their ability to obtain suitable jobs with the working conditions they were used to.

It may be more realistic to plan expansion of social protection schemes to the informal sector as part of comprehensive action programmes that address the basic concerns and problems of those whose livelihood is derived from this sector. The first

priorities may be strengthening prospects of survival and improving incomes, rather than with investing scarce resources in social protection, such as social insurance schemes. Those countries that have adopted strategies for the uplifting of informal sector activities usually have the following objectives as a minimum:

- improvement of the productive potential, and therefore of the employment and income-generating capacity;
- improvement of the welfare of the poorest groups; and
- establishment of the appropriate regulatory framework, including appropriate forms of social protection and regulation.

2.2.3 Social Assistance and Services: Benefits and Transfers

In the current economic situation, the main poverty alleviation measure is micro-finance. As stated in Section 2.1.3, there are extremely limited resources available for social assistance, social services and disaster relief.

2.2.4 Voluntary Schemes: Savings, Credit and Micro-insurance Schemes

Micro-insurance Schemes

In general, insurance concepts are not widely understood in Lao PDR and commercial insurance products are not well known or sought after. There is only one insurance company that provides insurance cover for motor vehicles and occupational injuries. The fact that the legal liability to insure motor vehicles for third-party risks is widely ignored (only about 25% take out this insurance) illustrates the low esteem in which insurance is held.

The issue of priority needs arises as the costs of medical care are clearly a concern for sections of the population relying on uninterrupted earning capacities, but in rural areas with high incidences of poverty amongst subsistence farmers, food security may well be the most important aim. Due to the unsatisfactory standards of health facilities and their relative inaccessibility, the rural communities are accustomed to self-medication with traditional remedies and medicines bought from local pharmacies.

Consequently, support for micro-insurance may be more likely amongst urban households. In fact, WHO (World Health Organization) is due in early 2002 to launch a community-based health insurance project in a district of the capital Vientiane on a pilot basis. The strategy is to develop design guidelines in semi-urban areas with contributory capacities and some health facilities and then to apply these in rural areas meeting certain criteria. This project is designed for collaboration between WHO and the Ministry of Health and, in the longer term, the schemes which are developed may be replicated in other areas of the country.

The formation of associations in Lao PDR must be monitored by a party or government agency. Whether this is an obstacle to community or group action is difficult to ascertain but the existence of some associations is accepted in the agricultural sector.

Savings Schemes

Mutual Assistance Fund (MAF) of LFTU. MAF was set up by the Lao Federation of Trade Unions in 1993 to supplement the public sector social security scheme described in Section 2.1.2. The membership, which is voluntary, recently stood at approximately 33,000 out of the trade union membership of about 77,000.

MAF is a savings scheme to which members contribute a standard 1,000 kip per month, but local autonomy exists, as there are district committees that can vary rates to suit local preferences. Consequently, some districts levy contributions as high as 6,000 kip per month. Benefits are paid with respect to sickness, maternity, employment injury, death and marriage. Examples are as follows:

- 20,000 kip upon marriage;
- 20,000 kip per child upon birth;
- 30,000, 50,000 and 80,000, respectively for minor, medium and major surgical operations;
- disaster relief of up to 100,000 kip per year; and
- on the death of a member, from 200,000 kip for under one year's membership up to 600,000 kip for over three years' membership.

These payments are deducted from the individual accounts that can go into deficit. However, no interest is added to the accounts and only 70% of the balance is repaid when the account is closed for whatever reason (death, retirement or withdrawal from MAF). Although these features detract from the attractiveness of the scheme, LFTU states that it has other features increasing its popularity. These include additional financial and some social support for sick persons or others in difficulties with resources from the reserve funds. In fact, the lack of other means of savings with interest may account for the sizeable membership. Also membership in the trade union may entail joining MAF semi-automatically rather than voluntarily.

Welfare Fund for Teachers. Information was obtained on the voluntary welfare fund established in 1992 in the Hai Xai Phong District of Vientiane Municipality with the aim of promoting solidarity amongst the teachers of the district. With about 560 members (290 women and 270 men), who are either primary or secondary school teachers or former teachers, the fund operates on insurance principles. Members contribute 2,000 kip per year and may receive 1,000 kip per day if hospitalized up to a maximum of 20 days per case and two episodes of hospitalization per year. Members may have access to loans and payments are made to families upon the members' death.

This scheme may be an example of similar schemes for groups such as teachers who have a professional connection with each other and may be drawn to a system of mutual support. Nevertheless, as teachers are public servants and therefore members of the public sector scheme, which provides medical benefits, the rationale for this scheme may lie mostly in the access to credit at low rates of interest.

Credit Schemes

A variety of credit schemes have been established at village levels in recent years through international donors and NGO efforts in support of specific development goals. More attention has been paid to micro-finance projects that include savings components. Few if any have insured loan recipients against sickness and death. When the momentum of micro-finance projects, including capacities to repay the loan, is affected by illnesses, usually there is no established procedure but a low-interest loan may be provided to pay medical costs. This adds to the indebtedness and increases the difficulties of improving economic status and therefore some persons may delay receiving medical care only to worsen prospects of recovery. Health and life insurance cover could be negotiated by the micro-finance institution for loan recipients and charged to the applicants. Alternatively, insurance cover could be made an obligation for applicants but this would be less appropriate when insurance facilities are unavailable in remote areas of the country.

Emergency Funds

Emergency funds are schemes set up in workplaces as an expression of group solidarity to assist employees faced with crises such as a death in the family or to pay for the customary celebratory gifts on the occasion of marriage or births. No information is available on the number of these funds but some are known to exist in garment factories that are staffed by young single females from rural areas. Living in dormitories and seeking to maximize savings to take home at the end of their contracts, as well as to send regular remittances home, these workers have limited resources for any lengthy illness for which user charges are levied at urban facilities.

These funds arise out of the discussions amongst workers on the respective merits of contributing regularly to funds or meeting requests for donations as they arise. Usually, contributions are kept as low as possible because of the general reluctance to make regular contributions to funds amongst persons who are unfamiliar with the notion of risk pooling.

2.3 Labour Market Policy

2.3.1 Active Labour Market Policy

Since employment is the primary source of income for the poor, well-functioning *labour markets* with the appropriate balance between adequate standards and flexibility are crucial for their welfare and social protection. Active labour market programmes may be instituted for many purposes, such as to facilitate and promote opportunities for employment, reduce labour market segmentation, and increase access to skills upgrading and micro-credit schemes. Designated categories, such as youth and females, can be given special attention. In many countries, the focus of job creation policies includes the promotion and well-being of small- and medium-sized enterprises or SMEs. They need support and assistance in many respects to which government agencies and international NGOs respond with appropriate programmes.

For example, in Lao PDR there is a demand for schemes and projects for the improvement of capacities to establish and operate small businesses. One development is an Agricultural Market Information System that is designed to improve market access for farmers. SMEs also require ready access to credit, which is more problematical due to the weaknesses of some state banks and difficulties in undertaking restructuring exercises in this sector.

Currently, employment promotion in Lao PDR is focused on two main objectives:

1. Encouragement of self-reliance in rural areas in absorbing labour through expansion of activities in areas such as handicrafts and in the improvement of the infrastructure, including the construction of major bridges across the Mekong River with bilateral financing.
2. Promotion of foreign contract employment to gain a larger market share and foreign exchange, and protect workers from exploitation.

Under point 1, some training is provided for handicrafts and income generating activities, such as fish breeding and mushroom growing for vulnerable groups. Labour exchanges deal mostly with unskilled workers and lack training facilities for the upgrading of working capacities. This is linked to point 2 since it is necessary to meet demands for various types of skilled labour.

Active labour market policies call for significant investment of public funds in networks of labour exchanges using effective systems of labour market information and well-designed and appropriate training programmes. Even if national networks of labour exchange exist, the usual situation is that skills training programmes and employment services are not sufficiently accessible to informal sector groups on the fringes of labour markets and rural workers. In LDCs such as Lao PDR, with limited tax revenues compared with needs for public expenditure, the budgetary allocations for these purposes tend to have insufficient priority, and there is little to suggest that the importance of active labour market policies is fully appreciated.

This is a cause for concern in today's world of trade liberalization to which the country is committed through AFTA and eventually WTO. In fact, an urgent reappraisal of active labour market policies is warranted on the basis that they are not an option but a necessity in one form or another. For example, there would be much to gain from building up capacities for import substitution and expansion of exports in sectors where the country still has a comparative advantage. The wide range of imports gives some scope but the small domestic market is a constraint leading to suggestions that Lao PDR should identify niche markets both inside and outside the country and also follow the classical developmental path of establishing labour-intensive industries. The proviso is that increased efforts are made to create a more business-friendly environment including enforcement of commercial laws and a reduction in corruption.

2.3.2 Passive Labour Market Policy

Education

Lao PDR is committed to the goal of universal primary education by 2015, and, as explained in Section 1.4, aims to invest more heavily in basic social services, notably education, health and welfare. Poverty alleviation and its eradication is another major priority and requires actions across the board including the comprehensive strengthening of education and training throughout the country, but especially in deprived areas. Some progress is evident from the data in Table 8, Appendix, on enrolment, duration of schooling and educational facilities. From this data, the teacher-student ratio in 2000 was 1 to 27.51 and about 32 students per classroom, but if the total numbers in the 5–14 age group are included, the teacher ratio drops to 1 to 40 and the classroom ratio to 47 students. This indicates the extent to which the 5–14 age group is underserved and reflects the reality that most urban children are reasonably well provided for at the expense of serious deficiencies in many rural areas. Considerable expansion of facilities and training facilities and capacities is vital for future progress considering the demographics resulting from the high fertility rates in rural areas of recent years.

Minimum Wages

The importance of the minimum wage system for social protection is to the extent of its effectiveness in reducing the vulnerability of low-income households to such risks as unemployment, and in establishing basic standards for the various programmes that are based on earnings. Examples of the latter are social insurance schemes and provisions on severance pay. Minimum wages are also important for their effects on wages in general since workers on higher wage scales may benefit from adjustments designed to preserve differentials.

In Lao PDR, minimum wages were increased in October 2001 from 93,600 kip per month to 150,000 kip for the government sector and to 220,000 kip in the private sector. These are very low by any standards. Formal sector workers at least have some allowances, which improve take-home pay. However carefully minimum wages are formulated, some sectors and enterprises will find them too high and evasion occurs. The extent of compliance is not known but it is possible that the levels are relatively high due to the role of trade unions in enterprises.

Social Protection of the Unemployed

The inadequacies of social protection for workers who become redundant were evident during the period of mass layoffs during the Asian financial crisis. With relatively few unemployment insurance schemes in developing countries, severance pay is the main method of compensating these workers. Receipt of a lump sum allows some time to find suitable new jobs, but this type of benefit suffers from delays and evasion. Linkage with length of service makes severance pay more a form of retirement provision than an unemployment benefit. As an employer liability benefit, there

is no requirement for advance funding and the system is not well designed for situations where enterprises run into severe financial difficulties and have to terminate large numbers of workers. The provisions are seen at their most ineffective when:

- enterprises make little or no advance provision and have inadequate capital resources to make large-scale payment in addition to wages when redundancies occur;
- enforcement through labour inspection is weak;
- mass layoffs are required due to bankruptcy;
- widespread unemployment results from a general economic crisis and bank credits are unavailable.

The rates of severance pay under the Labour Code are 10% of monthly salary for each month of service except that for more than three years' service the rate is increased to 15% per month. MOLSW does not maintain records of severance payments and the extent of compliance is not known.

Participating in labour markets exposes workers to risks, and social protection for the workforce should, when conditions are suitable, include appropriate schemes which meet requirements for income maintenance in certain contingencies, including unemployment, without weakening incentives to work or adding excessively to labour costs. The purpose would be to allow some time for the unemployed to search for the best available jobs rather than opt for readily available lower paid jobs and continued exposure to risks and insecurity.

When the question of the feasibility of suitable modest unemployment protection schemes arises it is evident that effective labour market machinery is required for the process of adapting labour supply to demand and that active labour market policies are a pre-requisite for the introduction of unemployment insurance. Usually, this would require upgrading of the existing labour market machinery. If this is not possible for financial or other reasons, the main alternative would be unemployment assistance financed from general revenues. This would impose fiscal burdens and inevitably reduce the scope of protection to the most needy and raise concerns about increases in poverty.

This is the type of dilemma faced by a number of developing countries that are considering how to adapt labour market policies and social protection to the changing economic conditions in their countries.

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage, Feasibility and Financial Sustainability

There are as yet no informal sector schemes of any significance and the assessments in this section are of the two statutory schemes outlined in Section 2.1.2 designed for the public and private sectors, respectively.

Responsibility for these schemes rests with MOLSW, which has been advised by a tripartite Project Steering Committee (PSC) attached to an ILO/UNDP project entitled 'Development of Social Security'. The PSC made important recommendations on the reform of the public sector provisions, the structure and scope of the new scheme for SOEs and private sector enterprises, and for the evolution of one uniform system for all formal sector employees. The latter is not attainable in the short term because of factors such as:

- the public sector scheme, which is not designed on strict social insurance principles as it reflects the intention to reward public servants with a package consisting of secure but low-paid employment and generous pension provisions in terms of qualifying periods including periods of war and patriotic service, high replacement rates, and full indexation to salary increases;
- the un-financed accrued liabilities of the public sector pension scheme which has operated on a pay-as-you-go basis since its inception; and
- the marked disparities in salary levels between the public sector and private sector workers that could undermine the financial systems of the new scheme for pensions and medical care, respectively.

Public Sector Scheme

Coverage is for the 91,144 pensionable staff (whilst other personnel are eligible for the private sector scheme), so extension of coverage is not an issue and the assessment is in relation to the objectives of the scheme. These are to provide adequate standards of health and income protection for public sector staff and their dependants. The general view is that performance has fallen far short of the objectives, as explained below. Furthermore, the scheme is not sustainable financially.

In the case of **medical care**, the benefits are provided on a fee-for-service and reimbursement basis and the complaint is the low rate of reimbursement and the delays in settling claims. Often public servants are unable to pay for the provided medical services and hospitals have to absorb the medical costs. This causes concern to hospital authorities because of the extent of unpaid bills. Consequently, the financial barriers to access to health care are still in evidence for the covered population. The cash benefits are criticized for their low rates but in fact the scheme merely reflects the low earnings levels amongst the public sector staff. Indexation to salary increases ensures continued protection at the same replacement rates.

Public administration reform envisages the gradual downsizing of the public sector and its upgrading in terms of efficiency and the payment of salaries on a par with the private sector. The PSC has identified reform options with the objective of eventually achieving uniform standards for all formal sector employees. This involves changes in the re-distributive elements separating war veterans from the general scheme, equalizing pension age at 60 years for men and women and adequate bipartite financing on full salaries.

In this connection, an actuarial valuation found that pension costs alone would be between 11% and 12.5% of earnings by 2020, depending on the insured growth

assumptions, compared with 6% presently collected from the payroll. Another issue is the preservation of the pension rights of the SOE staff who were excluded from the public sector in 1994. Evidently, concepts of state financing from tax revenues were still prevalent when this scheme was introduced. Debiting 6% from employee salaries came later, establishing the principle of bipartite financing for the future reform of the scheme.

An actuarial valuation will be needed to establish costs of the reform proposals in the context of any definite plans for revision of public sector salaries, and to propose suitable financial systems for each benefit branch. The method of administration should be determined on the principle that the funds of the private and public sector schemes, respectively, are separate entities.

Private Sector Scheme

Due to the strategic importance of a dynamic private sector for economic growth, government policy changed by giving first priority to the design and an introduction of social insurance scheme for the private sector rather than the reform of the public sector provisions. Comparable social security benefits to those of the so-called 6% scheme were seen as an essential inducement to qualified personnel to opt for careers in the private sector, within the framework created by the Labour Law 1994, rather than to aim for pensionable status in the civil service. Originally a modest scheme consisting of some short-term cash benefits, it was envisaged for implementation initially in Vientiane and later throughout the country.

Scope of Protection. The PSC took the major decision in July 1997 that the outstanding priority of employees and their families was health insurance and that this should be included in the new scheme from the outset not only for insured workers but also their dependants, defined as spouse and children meeting the conditions in the Decree. This was seen as possible using the capitation payment system for medical providers as a means of establishing appropriate incentives and strengthening cost containment.

This far-reaching decision strengthens gender equity in access to health care, but raises the issue of feasibility of delivering adequate medical services in an acute form in view of the difficulties in predicting utilization under a pre-payment system and the limitations of the public health system.

The PSC also decided to include old-age pensions since actuarial studies found that pensions could be financed through low contribution rates in the initial years under a system of partial funding appropriate to the social and economic situation in Lao PDR. The introduction of pensions insurance when demographic factors are favourable constitutes an important stage in developing a comprehensive social security system. The payment of the first pensions after five years should mark a gradual change in needs for support of the elderly.

Delayed Implementation. These far-reaching changes from a modest to a very ambitious scheme have presented considerable challenges, although due to be imple-

mented initially only in the Vientiane area. The Decree 207/PM on the social security regime for private sector employees submitted by the PSC in November 1998 was promulgated only in December 1999, and after further delays the Social Security Organization (SSO) was established in June 2000. It was necessary to delay implementation until June 2001 and to restrict the initial coverage to enterprises in Vientiane with 100 or more workers. The scheme was finally launched in June 2001 with contribution rates of 5% of insurable earnings by employers and 4.5% by employees, but initially medical benefits were restricted to insured persons and children under age 6.

Extension of Coverage. The scheme has started slowly with an initial 20,000 employees but SSO plans both to expedite implementation in the Vientiane municipality and then to extend coverage as widely as possible. The Decree envisages compulsory inclusion of all private sector enterprises with ten or more workers. Other enterprises may apply for voluntary coverage. The question arises whether the introduction of a comprehensive scheme will hamper the extension of coverage to smaller enterprises and to areas outside the capital because of:

- difficulties in upgrading the medical facilities to the required standards for accreditation to the scheme;
- higher costs than if a more modest scheme for initial membership had been introduced to allow for a gradual process of increasing contribution levels over a period of years.

Good Governance. In developing countries aiming for good governance of social security systems, it is customary to establish an autonomous body to manage the social security programmes under tripartite supervision in the form of a governing board answerable to the responsible Ministry (Malaysia, Singapore, Philippines and Korea). The concept envisages that staff will become professionals through long-term careers acquiring experience and skills through training and that services to the insured will be enhanced. This is the aim in Lao PDR but is still not in prospect because of lack of funds in the initial years of the scheme. For this period, the government provides budgets and there is concern that trained staff in the key areas such as the computer and accounting sections will not be retained because of the more attractive salaries available in the private sector.

Gender Issues. The scheme aims for gender equity but issues arise in relation to the large numbers of young single women recruited from rural villages to work in garment factories for a few years before returning home. These workers live on the premises, send remittances home to maintain their families and expect to settle down to rural life when their contracts expire. Although expected to contribute at the same rates as married insured persons, their dependants cannot benefit from the medical benefits. Furthermore, it is uncertain whether pension rights will ever be realized. Although this is normal in defined benefit schemes, this may become an obstacle to achieving high compliance standards in the initial period of implementation.

3.2 Gender Equity

A key element in both the private and public sector schemes is the equalization of pension ages of men and women at 60 years. This enhances:

- gender equity by reducing the vulnerability of female employees to the redundancy policies of enterprises which target persons who can qualify for a pension, and also increases opportunities for female persons to build up full pension rights;
- equality of treatment of men and women since longer female life expectancy results in some subsidization of female old-age pensioners; and
- the financial sustainability of the pension schemes.

Changes in pension age of this type invariably require phasing over several years because of acquired pension rights and the need for labour market changes which permit female employees equal access to work up to age 60. Until such changes occur, female employees who are forced to retire at age 55 and unable to find other insured jobs will be faced with the following choices in respect to their pension entitlement:

- Paying voluntarily both the employer and employee contributions up to five years; or
- Claiming early retirement pension and suffering reductions of 0.5% per month in advance of age 60 (or 6% per year).

Evidently, at least in the initial years a pension age of 60 years could disadvantage some sections of the female labour force and it will be advisable to phase-in changes gradually over a period of about ten years. Furthermore, rapid reforms of official employment policies are needed relating to older workers in both public and private sectors. Otherwise, many women may qualify only for lump sums in lieu of pensions. It is therefore urgent to equalize retirement at 60 years in Article 54 of the Labour Law and to promote measures for the continued employment of women workers up to age 60. This change would benefit working women whether or not they are insured.

Gender equity is strengthened by provisions for the sharing of pension rights in the event of divorce and enabling widowers to qualify for survivors' benefits on the same terms as widows.

3.3 Costs of Administration

The public sector scheme is administered by MOLSW through the government budget since no separate funds have been established. Specific figures have not been published but it appears that costs are relatively low because there is no contribution collection system and pension payments are computerized.

Decree 207/PM on the private sector scheme provides for the administrative costs which are limited to 10% of all revenue. These will be drawn from each autonomous fund as costs are incurred. Table 10, Appendix, shows that administrative costs in the initial stages were only 2.16% of income. True cost levels will be established when more operational systems come into force and contribution collections reach optimum levels.

The aim for the public sector scheme is to be self-financing using autonomous funds and to operate efficiently and economically. In time, both schemes will be under supervision by Boards to monitor performance and keep costs within legal limits.

3.4 Targeting

The public sector scheme is financed from tax revenue, and benefits public servants and their families. The problems of the public service include low pay, which has required high replacement rates for social security benefits. Tax-financed systems raise equity issues since low-income persons outside the social security scheme concerned may be paying regressive taxes that subsidize persons with secure employment even at low salary levels. In this sense, public sector staff has clear advantages over other groups such as informal sector workers.

The private sector scheme is designed to be self-financing although like all statutory schemes, the government guarantees its solvency. Employers and workers pay contributions from their incomes and the question arises whether these costs are absorbed or lead to additional costs for consumers. Either approach is possible in individual cases or in different sectors, but with relatively low charges in force (5% by employers and 4.5% by employees) this may not constitute a major issue in the initial years of implementing the scheme.

3.5 Accountability and Transparency

The new private sector scheme has been designed to achieve good governance and will rely on extensive public information to disseminate information on rights and how to obtain them, quality assurance for the health insurance services, internal and external auditing, publication of annual reports and accounts and, above all, on tripartite supervision. Realistically, accountability and transparency, and good governance in general, may be achieved gradually depending on such factors as how well the tripartite Board of Directors becomes an effective defender and promoter of the scheme. It will be a difficult transition for some persons from being representatives of government departments or institutions to that of independent (but part-time) directors placing the interests of the insured persons first. For example, in some countries pension schemes may be under pressure to increase benefits for political reasons when this is inadvisable for financial and other reasons. How such boards react in these circumstances will be all-important for the evolution of sound and accountable systems of social security protection.

Much depends therefore on the development of the social security institution. Essentially, such developments usually follow the accepted norms in a country but in this instance the processes will be assisted by externally financed technical assistance for the first four years of implementation.

In addition to effective performance and services for the insured population, overcoming bureaucratic tendencies in favour of prompt actions placing the interests of insured persons and their families first, attention has to be paid to issues such as

corruption. Will some benefit claimants believe that they should pay if they want quick service and will a few of the defaulting employers try to avoid detection and prosecution through bribes to inspectors? These are well-known problems in countries similar to Lao PDR and it is only realistic to expect that such practices may occur and to prepare accordingly. The new administration aims to prevent such practices and to detect and punish any which are reported or discovered by checking and supervision as well as maintaining good communications with employers and insured workers.

4. Development of Innovative Programmes and Alternative Social Protection Schemes

Strategies for Extending Coverage

Extension of coverage is now fully recognized as a critical issue in many developing countries that are examining ways of strengthening their systems of social protection. Many have expressed concern about the lack of social protection of the excluded groups. As regards the farming communities, some countries are examining the feasibility of new agricultural insurance schemes. A number of countries have prioritized public works projects and micro-credit schemes as effective instruments for poverty reduction. In the urban informal sector, one of the main aims has been to extend existing social insurance schemes. The problems of doing so have proved to be intractable and little progress has been made.

The basic problem is that compulsory comprehensive social insurance schemes do not permit partial coverage for each benefit separately and are designed for employees who are able to contribute regularly together with their employers. This is specified in the legislation by excluding other types of workers whose coverage would require adaptation of the contribution and benefit systems. A re-thinking of this approach is required.

Important issues arise when planning extensions to excluded informal sector groups:

- whether these persons will join schemes on a voluntary or compulsory basis as voluntary insurance cannot ensure effective targeting and may not be financially sound;
- whether the group is self-financing and can participate in the general scheme or needs a special scheme or subsidies.

With regard to social insurance, special efforts are needed to overcome obstacles to coverage, including:

- low contributory capacities and limited or no resources from employers;
- adverse selection and under-financed participation in general schemes where minimum pensions are payable and in health insurance programmes;
- concern about manipulation of earnings declarations to pay low contributions until it is profitable to pay high rates to qualify for high earnings-related benefits;
- administrative problems in registering individuals working on their own account, as opposed to employees, and in collecting contributions.

Undoubtedly, challenges on this scale raise the issue of whether developing countries can overcome the numerous difficult problems involved in designing and implementing sound innovative special schemes for the priority needs of these groups. One prerequisite in many countries would be significant increases in the institutional capacities of social insurance organizations.

Some of the self-employed persons in small household and micro-enterprises may have sufficient resources to insure themselves against some risks. There is a potential role for the private sector in meeting some of the needs of the self-employed and other persons for low-cost pension and health insurance plans and for greater involvement in the agricultural insurance sector.

Community-Based and Micro-Insurance Schemes

Types of schemes. One option for informal sector groups in both urban and rural areas is self-insurance not only for health care but also funeral costs and similar short-term risks through voluntary schemes established by mutual benefit societies, cooperatives and similar organizations or civil society groups that rely on trust engendered through occupational groupings or community solidarity. Work-based organizations may start with credit and savings schemes and develop an interest in establishing contributory social protection schemes.

Micro-insurance principles can provide an alternative approach to agricultural insurance where public schemes are lacking or unable to meet the needs of smaller scale farmers. Another potentially important area is micro-credit schemes to improve the capacity of small-scale farmers to develop production and in time qualify for commercial credit.

There is increasing recognition in national and international circles that these initiatives should be encouraged as part of the strategies for strengthening social protection for sections of the labour force with demonstrably little hope of coverage by public schemes or lacking protection when schemes are non-existent, as in the case of agricultural insurance. However, equity concerns may arise where micro-insurance schemes have restricted coverage as some are organized for particular groups, and poorer persons may be excluded, especially if their health record is below average. Social exclusion can be reinforced rather than overcome since the basic objective is to minimize risks to the pooled funds.

Problems of Sustainability. The most popular sector for action has been health insurance mainly for primary health care only but some schemes cover hospital care. Small-scale voluntary schemes have to overcome difficult challenges in

- establishing the required contribution and benefit levels, and building up adequate reserves;
- coping with problems of adverse selection and moral hazard;
- providing adequate services, given the unequal distribution of medical personnel and facilities; and

- administering the scheme efficiently and economically and retaining the confidence of members in pooling funds.

Covariant risks are a special problem for such small-scale local pooling arrangements. A sickness epidemic or widespread crop failure could consume all reserves in the relevant schemes. The existence of public disaster relief schemes could reduce incentives to contribute to private schemes unless some additional disaster relief benefits are provided in recognition of the fact that by coping with manageable risks these schemes reduce the dependence of members on public support through social assistance and public works projects.

Comprehensive voluntary social security schemes, such as that operated by the Self-Employed Women's Association (SEWA) for many years in Gujarat state, India are an example of what can be achieved with some external support. Evidently, there are few such schemes that are able to demonstrate sustainability. Rural health insurance schemes in China are progressing with the help of financial support from local governments, but such subsidies are generally not a viable option for mutual benefit schemes in other countries. Another approach to financing is the use of excise taxes on the products of certain types of home-workers and miners in India for non-contributory welfare funds. This requires government action and support for the management of the funds.

The strategy of broadening membership and enlargement, for the purpose of wider risk pooling, also presents difficulties because this may weaken the defences against the problems of moral hazard and adverse selection, which can be contained in small schemes by local knowledge and social pressures. As expansion is vital for survival, it must be a priority on the basis that this helps to achieve economies of scale and sufficient bargaining power with health-care providers.

Strategies for Improvement. In general, developing countries have very little experience of micro-insurance and may need external technical support in order to formulate effective policies and strategies for the promotion of sound and well-designed micro-insurance schemes. Because of viability issues, it is unlikely that micro- and community insurance schemes can meet pressing needs for even basic social protection for significant numbers of the groups lacking protection without some form of government assistance towards ensuring the sound development and sustainability of such schemes. This should include facilitating reinsurance of the risks, which has to be taken into account in financial systems as an essential expenditure.

In the case of the health insurance schemes, it is often suggested that social insurance institutions should provide technical advice and support on such key aspects as the contribution and benefit structures and maintenance of records. This is unlikely on any large scale in the short-term where these bodies are themselves struggling to cope but could become an objective in strategies for improving institutional capacities. Suitable associations such as credit unions, or their equivalents, could assist in implementing any government plans for promoting micro-insurance but this would be best if coordinated or guided within a framework established by governments.

This should in time include regulatory legislation for the operations of this type of scheme and support such as tax relief on contributions where schemes meet legal requirements.

Collecting and dissemination of information on existing schemes and publicity on best practices, and some of the pitfalls, could generate pressures for action and motivate suitable bodies and groups to consider how to establish their own suitable schemes. Another important step would be for governments to increase efforts to rectify deficiencies in the health infrastructure in deprived areas rather than rely solely on market forces to meet organized demand from micro-insurance schemes.

Agricultural Insurance Schemes

In rural areas, the smaller scale, traditional subsistence farmers, who have high exposure and vulnerability to risks, can rarely participate in voluntary agricultural insurance schemes for crops or livestock unless the relatively high premiums are heavily subsidized. The benefits are not only income protection but also better access to credit. Where such schemes are yet to be introduced or have been discontinued after suffering severe financial losses, these groups have to rely on family and community support networks if crops fail or government disaster relief if covariant shocks occur. It appears that few group and community micro-insurance schemes have been organized to cope with these types of risks. The question of subsidizing agricultural insurance or finding alternative solutions to the problems of the vulnerabilities of these large farming communities is a major one considering the magnitude of the possible costs involved. A start could be made on a small scale in particular regions in order to experiment with and evaluate different types of schemes.

Motor Vehicle Accident Insurance Schemes

There is a serious and growing problem of meeting the costs of medical care of accident victims arising from the constantly increasing numbers of motor vehicle accidents in Lao PDR and especially in Vientiane, where vehicle ownership is concentrated. This is largely a problem of younger persons driving uninsured motorcycles with little or no training. Accident victims are unprepared for the heavy costs of hospital treatment and they and their families face severe financial problems in meeting these charges. The injured include pedestrians and others who are unable to obtain redress from uninsured drivers. A Motor Vehicle Accident Insurance Fund could be established with finance from a levy on the insurance premiums or higher vehicle registration fees. The fund's main purpose would be the financing of medical care, in conjunction with insurance companies, but it also should aim to promote comprehensive insurance and to reduce accidents through preventive measures.

5. Policy Recommendations

The description and analysis of social protection in Lao PDR shows that a policy basis exists for the formal sector employees. Two social insurance schemes are in

operation for the public and private sectors and they constitute the framework for further development of social protection for these workers and their families. Two major issues are the priorities attached to and the feasibility of:

- the further development of social security protection for the formal sector;
- the development of adequate systems of social protection for other economically active persons and their families, and other population groups, ranging from modest micro- or community based insurance schemes for one contingency, public works projects, social assistance, micro-credit and savings programmes to fully fledged statutory schemes of one type or another.

How to devise appropriate, realistic and affordable policies and strategies for the short-, medium- and long-term development of social protection for the country as a whole is a difficult question facing many countries since responsibility is spread amongst several government departments such as MOF (Ministry of Finance), MOLSW and MOH. These ministries may have their own objectives, which may overlap such as the desire of fiscal authorities to develop capital markets with the aid of defined contribution schemes for which investments are managed by the private sector. However, such objectives may conflict with the preferences for risk pooling as the basis for social security schemes. Limited resources must be allocated in the most effective way in order to benefit as many persons as possible. In time, countries may develop multi-pillar systems but these rarely result from a process of overall planning in which social, economic and fiscal considerations are carefully balanced.

It is a matter for each country to determine how best to coordinate entitlements and to meet aims for providing adequate remuneration and benefits within a policy framework for ensuring that levels of labour costs are consistent with strategies for economic development and employment generation. Since determining these objectives and establishing the most suitable approaches on particular issues involves the responsibilities of several government departments, as well as the social partners and civil society, a forum is needed in which to work out policies and future strategies. However, Lao PDR, like many other developing countries, has no formal framework to address such issues and to determine overall policies and strategies in the field of social protection. The establishment of a Social Protection Coordination Commission or Committee is one approach that warrants consideration in view of the various standpoints that should be included in the equation.

The objective should be to devise policies and strategies for the orderly development of effective and sustainable social protection systems for the entire population of the country. This would entail analysing needs and capacities (human, financial and institutional) to meet them. Such a Commission should be two-tiered with the political leaders and decision makers directing and overseeing the work at official levels. Membership of the technical level of a Commission would comprise high-level representatives of the relevant government ministries, trade unions, employers' groups, civil society, the existing schemes and the commercial insurance industry. It would be essential for persons outside the formal sector to have a voice in the debates and discussions on the way ahead to achieve equitable progress in the field of social protection.

Appendix*

Table 1: General Data

Indicator and period	Data				
Size of population					
1980	3.2 million				
2000	5.2 million				
Population average growth rates					
1980–1990	2.3%				
1990–2000	2.6%				
Population density 1999	22 per square km				
Urban population (% of total)					
1980	13				
1999	23				
Demographic structure and trends	1980–1985		1995–2000		
1. Total fertility rate (per woman)	6.7		5.8		
2. Infant mortality rate (per 1000 births)	128		93.0		
3. Mortality rate under age 5 (per 1000 births)	193		150.0		
4. Life expectancy at birth					
– Male	44.5		52.0		
– Female	47.0		54.5		
– Both sexes	45.8		53.2		
5. Maternal mortality rates (per 100,000 births)	650 (1990)				
Lifetime risk of maternal death	1 in 19 (1990)				
Ageing (percentages of total population)	1980	2000	2010	2030	2050
1. Population over age 60	4.7	5.3	5.6	7.4	11.8
2. Population over age 65	2.8	3.3	3.6	4.9	7.7
3. Population over age 80	0.2	0.3	0.4	0.7	1.2
Dependency ratios (%)	1980	2000	2010	2030	2050
1. Old-age dependency ratio	5.1	6.3	6.5	7.9	11.3
2. Youth dependency ratio	76.2	83.4	72.3	51.9	24.9
3. Total dependency ratio	81.3	89.6	78.8	59.7	46.2
Adult literacy rate (% aged 15 & above) 1997/98	Males	82	Females	55	
	Urban	96		82	
	Rural	79		49	

* Main sources: Selected World Development Indicators, ILO, 2000 and publications of the Lao PDR National Statistical Centre.

Table 2: Population – Estimated Average Mid-year of Population by Age Group and Sex, 2000 (1000s)

Age-group	Female	%	Male	%	Total	%
0-4	340.5	12.9	345.6	13.4	685.0	13.1
5-9	398.5	15.1	407.4	15.8	807.1	15.8
10-14	393.3	14.9	389.4	15.1	784.1	15.0
15-19	274.5	10.4	276.0	10.7	550.6	10.6
20-24	198.0	7.5	175.4	6.8	371.1	7.1
25-29	192.7	7.3	165.1	6.4	357.8	6.9
30-34	163.6	6.2	144.4	5.6	308.0	5.9
35-39	166.3	6.3	159.9	6.2	326.9	6.3
40-44	118.8	4.5	131.5	5.1	251.6	4.8
45-49	95.0	3.6	110.9	4.3	205.1	3.9
50-54	92.4	3.5	72.2	2.8	164.0	3.1
55-59	63.3	2.4	61.9	2.4	124.7	2.4
60-64	47.5	1.8	51.6	2.0	98.2	1.9
65-69	37.0	1.4	36.1	1.4	73.5	1.4
70-74	23.8	0.9	25.8	1.0	51.0	1.0
75+	34.3	1.3	25.8	1.0	60.0	1.1
Total	2,639.3	100.0	2,579.0	100.0	5,218.3	100.0

Source: *Basic Statistics of the LAO PDR, 2000* (not all totals agree due to rounding).

Table 3a: Labour Market Structure

Indicator and period	Data			
	1980	1995	2000	2010
Labour force participation rates				
1. % of population aged 15-64				
a. Male	92.1	91.0	90.4	88.9
b. Female	77.1	77.4	77.6	78.0
c. Total	84.7	84.1	83.8	83.4
2. % of youth aged 10 to 15 years	31.0	27.2	25.4	21.7
3. % of elderly (older than age 64)	44.3	40.1	38.7	36.5
4. Economic dependency ratio (no. of economically active per 100 active)	94.0	107.0	110.0	103.0

Source: ILO, 2000.

Table 3b: Currently Employed Urban Population by Formal and Informal Sector, 1994

Sector	Usual status		Current status	
	No. of persons	%	No. of persons	%
Formal sector	47,460	54.5	47,523	53.5
Informal sector	36,457	41.9	38,008	42.8
Small farmers/fishermen	3,181	3.7	3,345	3.8
Sub-total	87,098	100.0	88,876	100.0
Not stated	7,410		5,631	
Total	94,507		94,507	

Source: ILO/EASMAT, 1996.

Table 4: Macro-economic Framework

Indicator and period	Data
GNP	
1. Size (billions of dollars, 1999)	1.4
2. Rank (1999)	160
3. Average annual growth rate (% , 1998–1999)	4.0
GNP per capita	
1. Size (dollars 1999)	280
2. Rank (1999)	184
3. Average annual growth rate (% , 1998–1999)	1.5
Public expenditure on education	2.1 % of GNP (1997)
Public expenditure on health	1.2 % of GDP (1990–99)
Military expenditures	9.8% of GNP (1992) 3.4% of GNP (1997)
State expenditure on public sector social security scheme	0.14% GNP (1999)

Main Source: ILO, 2000.

Table 5: Real GDP by Industrial Origin at Constant Prices (billion kip)

Sector	GDP		Growth percent	
	1999	2000	1999	2000
Agriculture	556	584	8.2	5.1
Crops	306	346	13.5	13.0
Livestock & fishery	197	203	2.3	2.9
Forestry	53	35	2.3	-33.6
Industry	234	252	8.0	7.6
Mining and quarrying	5	6	33.5	17.1
Manufacturing	176	190	7.1	7.8
Construction	28	25	-0.6	-10.5
Electricity, gas and water	25	31	21.6	24.3
Services	268	284	6.7	6.0
Transportation, storage & communication	60	65	5.8	9.5
Wholesale and retail trade	100	106	7.2	5.4
Banking and insurance	13	14	3.0	3.0
Ownership of dwellings	32	33	2.5	2.5
Public wage bill	31	31	6.7	0.7
Non-profit institutions	8	9	-4.8	8.0
Hotels and restaurants	22	24	21.6	11.8
Other	2	21	19.5	22.5
Import duties	6	6	-38.8	-3.4
GDP at constant prices	1,065	1,128	7.3	5.8

Source: Basic Statistics of the LAO PDR, 2000.

Table 6: Consumer Price Indices, 1997–2000, NSC Index 100 December 1995

Month	1999	2000	12 month % change	
January	372.0	654.5	150.8	75.9
February	419.0	665.9	150.5	58.9
March	461.7	672.0	167.1	45.6
April	508.4	686.2	159.3	35.0
May	529.4	694.4	155.4	31.2
June	577.5	701.8	124.7	21.5
July	639.0	707.3	135.7	10.7
August	670.4	715.6	140.2	6.7
September	668.0	733.0	122.6	9.7
October	670.7	727.4	121.1	8.5
November	642.3	713.8	94.3	11.1
December	644.7	712.8	86.7	10.6
Period Average	N/A	N/A	134.0	27.1

Source: Basic Statistics of the LAO PDR, 2000.

Table 7: Distribution of Income or Consumption and Poverty

Indicator	Data		
Gini index	30.4 (1992)		
Percentage share of income or consumption (Survey year 1992)	Lowest 10%: 4.2 Lowest 20%: 9.6 Second 20%: 12.9 Third 20%: 16.3 Fourth 20%: 21.0 Highest 20%: 40.2 Highest 10%: 26.4		
Poverty (population below the National Poverty Line 1993)	Rural	Urban	National
	53.0	24.0	46.1

Source: *Basic Statistics of the LAO PDR, 2000.*

Table 8a: Educational Data – Enrolment Data

Education	Primary		Secondary	
	1980	1997	1980	1997
1. Net enrolment ratio (% of relevant age group)	72	73	53	63
2. Percentage of cohort reaching grade 5	Male		Female	
	1980	1996	1980	1996
	—*	57	—*	54

* No data available.

Table 8b: Educational Data – Time Spent on Schooling

Number of schooling years	Female	Male	Female 15–19	Male 15–19
Lao PDR	3	4	4	5
Urban	5	6	7	7
Rural	2	4	4	5
Education time (Hours per day)	Under 14 years	Under 14 years	15–19 years	15–19 years
Lao PDR	3.1	3.7	1.9	2.4
Urban	4.3	6.3	3.9	5.4
Rural	2.9	3.3	1.5	1.9

Table 8c: Data on Educational Institutions

Type of institution	1999	2000
1. Kindergarten	728	741
– Teachers	2,200	2,200
– Children	36,900	37,700
2. Schools	8,960	8,971
– Teachers	38,200	39,700
– Students	1,082,400	1,092,300
– Classrooms	32,600	33,700
3. University	1	1
– Students	7,400	9,200
– Teachers	400	600
4. Institutes	5	5
– Students	4,700	5,100
– Teachers	500	500
5. Technical Schools	20	20

Source: *Basic Statistics of the LAO PDR, 2000.*

Table 9: Public Sector Social Security Scheme, Income and Expenditure 1998–1999 to 2000–2001 (kip)

Item	1998–1999	1999–2000	2000–2001
Income*	23,352,278,090	30,299,889,701	42,413,596,362
Expenditure			
– old-age pension	10,353,288,585	12,667,893,299	13,995,795,302
– child allowance	2,400,296,240	2,893,762,193	4,274,965,924
– disability allowance	3,051,824,670	3,705,437,027	4,237,170,060
– health care	1,683,859,941	1,920,592,307	2,194,810,994
– maternity benefit	100,344,200	103,963,200	109,857,510
– death grant	1,905,691,297	3,274,736,335	3,469,252,305
– prosthetic aids	27,729,100	43,058,000	150,165,300
– cost of living	951,222,609	2,227,083,833	9,037,856,154
Totals	20,473,956,642	26,886,526,194	37,429,873,549

* Note: Income consists of contributions by the covered employees and subsidies by the government usually in the 70% of expenditure range. The latter are estimated annually so as to ensure that no deficit occurs and are transferred to MOLSW for the payment of benefits. The cost of administration falls on the government budget.

Source: Department of Social Security, MOLSW.

Table 10: Private Sector Social Security Scheme, Income and Expenditure from Implementation Date June 2001 (kip)

Item	Amount
Income from June to December 2001	2,352,262,410
– Contributions	2,324,782,410
– Interest on investments	27,480,000
Expenditure from June 2001 to 21 January 2002	458,016,042
– Capitation payments to hospitals	395,005,132
– Emergency care	3,693,100
– Sickness benefit	4,653,633
– Temporary incapacity benefit	742,254
– Death grant	3,059,250
– Administration	50,862,673

Source: Social Security Organization, MOLSW.

Acronyms

AFTA	–	ASEAN Free Trade Area
ASEAN	–	Association of Southeast Asian Nations
CPI	–	Consumer Price Index
GDP	–	Gross Domestic Product
HRD	–	Human Resource Development
ILO	–	International Labour Organization
ILO Easmat	–	ILO East Asia Multi-Disciplinary Advisory Team
LDC	–	Least-Developed Country
LFTU	–	Lao Federation of Trade Unions
LWU	–	Lao Women's Union
MOLSW	–	Ministry of Labour and Social Welfare
MAF	–	Mutual Assistance Fund
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
NEM	–	New Economic Mechanism
NGO	–	Non-Governmental Organization
PDR	–	People's Democratic Republic
PSC	–	Project Steering Committee
SEWA	–	Self-Employed Women's Association
SOE	–	State-Owned Enterprise
SSO	–	Social Security Organization
TFR	–	Total Fertility Rate
UNCDF	–	United Nations Capital Development Fund
UNDP	–	United Nations Development Programme
WHO	–	World Health Organization
WTO	–	World Trade Organization

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Social Protection in Malaysia

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Abstract

Malaysia is a small nation with 23.8 million people in 2001 with a per capita income of US\$3,508. The country had an average annual growth rate of about 9.2% during the five years prior to 1998 when GDP plunged by 7.4%. Fortunately, the economy bounced back in 1999 and 2000 when it grew at 6.1% and 8.3% respectively, before contracting again in 2001. The rapid growth is associated with the intensive growth in the manufacturing sector. Nevertheless, despite the volatility in the growth rate, poverty incidence continued to be reduced from 17.1% in 1990 to 6.8% in 1997 but worsened a little to 8.1% in 1999 as a consequence of the crisis.

There are several social protection schemes in the country, although not all are national in coverage and function, including:

- (i) the Employer's Liability Scheme (ELS) covering employment injury compensation since 1952, and sickness and maternity benefits since 1955;
- (ii) Civil Service Pension (1951), a non-contributory pension scheme for civil servants;
- (iii) the Employee Provident Fund (EPF) (since 1951) for all workers not covered by the civil service pension;
- (iv) the Workers' Compensation Scheme (1952) to determine the terms and amounts of compensation in the case of death or accident, which never attained much significance. In March 1998, the Foreign Workers' Compensation Scheme was formed to cater primarily for foreign workers' insurance needs. The main social insurance scheme for workers earning less than RM2,000¹ a month in Malaysia is the Social Security Organization (SOCSO) established in 1969. There are also several private savings schemes, which workers can fall back on in times of need if they are members of these schemes. Social assistance in Malaysia is classified only as residual welfare.

The coverage of the formal social protection system in Malaysia is inadequate. The ELS rests solely on the employers, which causes problems to employers who are not financially stable. The civil service pension is financed through taxation largely provided by the low-income groups and therefore regressive. EPF does not pool risks and provide life-long security as benefits are based on contributions with dividend rates fluctuating over the years. Moreover, workers in the informal sector and the self-employed, such as petty traders and hawkers, are not compelled to have ac-

1 The exchange rate of the ringgit against the US dollar at the time of writing was US\$1 = RM3.8.

counts with the EPF and contribute only on a voluntary basis. As far as SOCSO is concerned, the real incidence rests with the consumers as employers can shift the burden as production costs, while social assistance is insignificant.

The Asian financial crisis has altered perceptions somewhat, due to the sheer magnitude of adversity that workers and vulnerable groups faced. The inadequacy of extant measures was exposed, for instance in retrenchment benefits and foreign worker social insurance. This is a significant development, though much work remains to be done. However, Malaysia still emphasizes employment generation and poverty eradication while reserving direct transfers only for those unable to enter the job market.

1. Institutional Framework

1.1 General Political, Social, and Economic Framework

General Background

Malaysia is an independent nation in Southeast Asia with a total area of 329,758 sq km and a population of 22.7 million in 1999 (69 people per sq km), 23.3 million in 2000 (71 people per sq km) and an estimated 23.8 million in 2001 (72 people per square km).

Table 1 shows that the average annual population growth rate between 1996 and 2000 was 2.4%. This growth rate continued to slow down with the declining fertility rate as the country continues to develop. The median age for the population was 23.9 in 2000 reflecting that Malaysia has a young population age structure. There has been a drop in the dependency ratio from 62.7% in 1995 to 59.1% in 2000 due to the rise in the proportion of working age population (15–64 years) and fall in the population below 15 years and a slower growth of those aged 65 and above. This dependency ratio will continue to drop until the end of this decade as the share in the 0–14 age group contracts from 33.1% in 2000 to 29.7% in 2010. On the other hand, the proportion of the working age group will rise from 62.9% to 65.8% over the same period. At the same time, the number and proportion of the 65 and above age group will also increase following the rise in life expectancy due to the improvements in the quality of life. While this phenomenon can lead to the problem of an ageing society, the problem is not expected to be critical in the next decade or so since the annual rate of growth of this group seems to be falling.

Life expectancy has been increasing steadily with that for males being 69.9 years and for females being 74.9 years in 2000. For the same year, the fertility rate for Malaysians is about 3.2 while the birth rate per 1000 population is 24.4; infant mortality rate per 1000 live births is 7.91 and death rate per 1000 population 4.4.

By 2000, the proportion of the population living in the urban areas increased from 55.1% to 61.8% over the last five years, rising at an average annual rate of 4.8%. The increase is due to the migration of workers lured by better economic opportunities and the expectation of an improved quality of life in urban areas as well as the extension of administrative urban boundaries. It is expected that the urbanization rate

will rise to 66.9% by 2005. The main component of inter-state migration in Malaysia is the urban-urban direction, followed by that of urban-rural (see Table 1, Appendix). In contrast, the main component of intra-state migration direction is that of rural-rural, followed by that of urban-urban. However, the importance of these components for individual states varies, since for highly urbanized states the urban-urban components are very high.

Table 1: Population Size and Age Structure, 1995–2005 (million persons)

	1995	%	2000 ¹	%	2005	%	2010	%	Average annual growth rate		
									1996–2000	2000–2005	2001–2010
Total population	20.7	100	23.3	100	26.0	100	28.9	100	2.4	2.3	2.2
Citizens	19.7		22.0		24.7		27.3		2.3	2.3	2.2
Non-citizens	1.0		1.2		1.4		1.6		4.3	2.4	2.4
Age Structure											
0–14	7.25	35.0	7.71	33.1	8.2	31.3	8.6	29.7	1.2	1.1	1.1
15–64	12.7	61.5	14.6	62.9	16.8	64.4	19.0	65.8	2.8	2.8	2.9
above 65	0.72	3.5	0.94	4.0	1.1	4.3	1.3	4.5	5.3	3.6	3.4
Dependency ratio (%)	62.7		59.1		55.3		52.2				
Median Age	22.8		23.9		25.3		n.a. ²				

1 This estimate is based on the preliminary count of the Population Census 2000 and has been adjusted for under-enumeration.

2 Not available.

Source: Malaysia, 2001a; Malaysia 2001b.

Macroeconomic Framework

Table 2 shows that Malaysia had achieved an impressive record of growth prior to the financial crisis of 1997–98. The real (in 1987 prices) Gross Domestic Product (GDP) grew at over 9% per annum during the first half of the 1990s, reaching a peak of 10% in 1996. However, the growth rate plunged by 7.4% in 1998. Nevertheless, the economy made a speedy recovery and achieved a growth rate of 6.1% in 1999 and 8.3% in 2000. Unfortunately, the dampening of the US economy and the continuing recession in the Japanese economy (two of Malaysia's leading trade partners) had a negative impact on Malaysia. The growth rate for 2001 has been revised downwards to 2% and more recently to about 1% due to a protracted and severe economic slowdown in the United States, which had also spread to other economies. The event of 11 September 2001 has made the prospect of an early recovery even more uncertain.

Table 2 also shows that the high growth rate of the whole economy is associated with the intensive growth of the manufacturing and construction sectors. The two sectors together with the non-government services sector accelerated at double-digit growth. In contrast, the primary sector (agriculture, forestry and fishing), was experiencing negative growth in the years before the crisis except for 1996 and 1997. This rapid growth of the manufacturing sector in the face of a much slower rate of the primary sector over the past three decades has resulted in a significant transformation of the Malaysian economy. The share of the latter declined from 29% in 1970 to 8.5% in 2000, while the share of the industrial sector (mining and quarrying, manufacturing,

and construction) rose from 31.4% in 1970 to 43.6% in 2000. The share of the services sector fluctuated between 36.2% and 54.6% over the same period. It is increasingly obvious that the services sector, comprising government and non-government services, has become more important.

Real per capita GDP (in 1987 prices) rose from RM7,235 in 1993 to peak at RM9,065 in 1997, but dipped to RM8,245 in 1998 and climbed to RM8,493 in 1999 and RM8,899 in 2000. GNP per capita in current prices rose from RM8,299 in 1993 to reach RM13,361 in 2000. However, in US dollar terms, it increased from US\$3,073 in 1993 to peak at US\$4,446 in 1996. The devaluation of the ringgit in the wake of the Asian financial crisis resulted in a sharp decline in GNP per capita in terms of US dollars since 1998. It has slowly picked up again to reach US\$3,516 in 2000.

A remarkable feature of the development process of the Malaysian economy is that the high growth rate throughout the period has also been accompanied by low inflationary rates (see Table 2, Appendix). The inflation rates were stable except for 1980 due mainly to the oil price shock of 1979. However, due to the tight factor and goods markets during the expansionary period of the 1990s, inflation had risen again but could be controlled at a relatively low level. Nevertheless, examination of the components of the consumer price index (CPI) reveals a worrying trend, in that the CPI for food and medical services tends to be higher than for all other groups. Increase in the cost of these items would negatively affect the poor more than the rest of the population since a larger portion of their expenditure comprises food and basic needs. For the first eight months of 2001, the inflation rate stood at 1.5%. It is expected that continued moderation in economic activities, the less favourable employment prospects and relatively weaker consumer confidence will continue to have a moderating effect on domestic prices (Malaysia, 2001c). The sub-index for food, which accounts for more than a third of the total weightage of the CPI, rose by only 0.6% during the first eight months of 2001.

The total (development and operating) Federal Government expenditure on social services (education, health, housing and others) between 1970 and 2001 is shown in Table 3. It can be seen that the share of expenditure as a percentage of the GNP on social services was decreasing till the mid-1990s as a consequence of the government's effort to privatize some of these services. However, this share (particularly that of education) has been rising in recent years as the government pursues an expansionary budget as a counter-cyclical measure following a slowing down of world economic growth. The rise in the share of education is necessary in order to equip workers to face the knowledge-based economy.

Small and medium industries (SMIs) play an important role for social protection because they are said to be able to generate more employment relative to large industries and are more flexible, being able to adjust to the changing economic environment faster than large-scale industries (Ragayah Haji Mat Zin, 2000). It is also claimed that SMIs have a favourable impact on income distribution. This is because SMIs involve a greater number of relatively lower wage earners and a relatively low capital income, resulting in relatively small income increases for a large number of people.

Table 3: Federal Government Expenditure (Development and Operating) on Social Services, Malaysia, 1970 – 2001

Year	Social services (RM Million)			% of total government expenditure			% of GNP		
	Sub-total	Educa-tion	Health	Sub-total	Educa-tion	Health	Sub-total	Educa-tion	Health
1970	753	521	175	26.1	18.1	6.1	6.2	4.3	1.4
1975	1,973	1,370	418	28.0	19.4	5.9	9.1	6.3	1.9
1980	4,477	2,786	778	21.2	13.2	3.7	9.0	5.6	1.6
1985	7,131	4,345	1,129	26.2	16.0	4.1	9.9	6.1	1.6
1990	9,611	6,361	1,772	26.0	17.2	4.8	8.7	5.7	1.6
1991	10,427	7,067	2,035	27.5	18.7	5.4	8.5	5.8	1.7
1992	12,261	8,059	2,414	29.4	19.3	5.8	8.8	5.8	1.7
1993	12,601	8,478	2,407	29.8	20.0	5.7	8.0	5.4	1.5
1994	14,826	10,108	2,529	32.0	21.8	5.5	8.2	5.6	1.4
1995	15,654	10,603	2,772	30.9	20.9	5.5	7.5	5.1	1.3
1996	18,808	12,489	3,474	32.2	21.4	5.9	7.9	5.3	1.5
1997	19,970	12,881	3,727	33.1	21.3	6.2	7.6	4.9	1.4
1998	20,845	13,443	4,047	32.1	20.7	6.2	7.8	5.0	1.5
1999	23,548	15,323	4,462	34.0	22.1	6.4	8.4	5.5	1.6
2000 ¹	29,860	20,022	5,403	35.3	23.7	6.4	9.6	6.4	1.7
2001 ²	35,263	23,658	5,461	37.8	25.4	5.9	11.1	7.4	1.7

1 Estimated actual

2 Revised estimate

Source: Malaysia, various years. *Economic Report*.

In Malaysia, a SMI is defined as a firm employing not more than 150 full-time workers, with annual sales value not exceeding RM25 million; with a small-scale industry being one that employs not more than 50 workers and with annual sales value not exceeding RM10 million, and a medium-scale industry being one that employs between 51 and 150. The principal statistics of manufacturing industries by size of establishments show that while the SMIs form a substantial portion of Malaysia's manufacturing base, their contributions to the gross value of output, total value-added, and employment are still low (see Table 3, Appendix). Hence, SMIs are not quite able to be one of the sources of social protection during times of crisis especially when they themselves face financial constraints.

The Bank Negara Annual Report 2000 (Bank Negara Malaysia, 2001) states that foreign direct investments (FDIs) into Malaysia peaked in 1992–93, accounting for 8.7% of GDP, but moderated thereafter to around 6.6% of GDP between 1994–97. It then dipped to below 4% in 1998, but has since recovered to about 4.9% of GDP in 1999 and 2000. During the 1990–97 period, 65% of the inflows were channelled into the manufacturing sector, 18% into the oil and gas sector, 10% into the services sector and 7% into the property sector. Since then, the share of FDI in the manufacturing sector contracted to about 43% of the total FDI inflows in the 1998–2000 period, while that of the oil and gas sector remained stable at 19% and that of the services sector jumped to 35%.

Labour Market Structure

The growth and structural transformation of the Malaysian economy has had wide implications on the growth of employment opportunities as well as the distribution of labour force by sectors. The employment share in the primary sector decreased from 53.5% to 15.2%, while that of the industrial and services sector increased from 14% and 32.5% to 36.1% and 48.7% respectively between 1970 and 2000 (see Table 2). While the structural transformation of the economy was rapid in terms of output, it has been rather slow in terms of employment structure. This invariably indicates disparities in labour productivity and earnings between sectors, and thus on the share of the poor.

With the rise in the employment opportunities in the modern sectors, the unemployment rate contracted to a low of 2.4% in 1997, but has since then risen slightly to 3.1% by 2000. The labour market became so tight in the 1990s that some sub-sectors had to resort to imported labour from abroad. There is no accurate estimate of the number of foreign workers in this country as different sources have different estimates. Edwards' (1997) estimates put it at 500,000 for 1985, one million for 1990 and 1.7 million for 1995, while the official estimate was about 1.6 million in 1999. Although the financial crisis had seen workers being retrenched from certain sub-sectors, particularly construction, many have been re-deployed to other sectors still experiencing a labour shortage, such as some sub-sectors in the manufacturing and services sectors as well as the agriculture sector.

The Malaysian labour force grew steadily before the Asian financial crisis, but dipped slightly in 1999, before returning to its pre-crisis level of almost 10 million (see Table 4). The labour force participation rate (LFPR) fluctuated during the 1990s, being around 65% for the nation as a whole. The male LFPR is much higher than that of the female LFPR, the former fluctuating around 85% while the latter is about half of the male LFPR.

Table 4: Labour Participation, Employment and Cost, 1995–99

	1995	1996	1997	1998	1999	2000	2001
Population ('000)	20,700	21,169	21,666	22,180	22,712	23,275	23,840
Labour force ('000)	8,256.8	8,641.4	9,038.2	9,880.9	9,178.0	9,573.0	9,801.2
Employment ('000)	7,999.2	8,426.5	8,818.8	8,564.1	8,862.1	9,271.2	9,411.1
Unemployment rate	2.8	2.5	2.4	3.2	3.4	3.1	3.9
LF productivity & wages (% increase):							
Real productivity	25.0	4.9	2.7	-6.3	8.8	22.7	-6.5
Unit labour cost	-4.5	2.8	3.9	-5.0	-5.0	-12.0	7.9
Real wage	20.9	4.4	5.9	-2.7	-1.7	12.9	4.5
LFPR*: Total	64.5	65.8	67.0	64.3	64.6	65.5	65.3
Male	83.8	84.8	85.7	83.4	84.4	85.4	85.1
Female	44.3	45.8	47.4	44.2	43.8	44.5	44.3

* Labour force participation rate.

Source: Malaysia, various years. *Economic Report*.

Distribution of Income and Allocation of Budget

The mean income of a Malaysian household has increased significantly and continuously from RM514 in 1976 to peak at RM2,606 in 1997. The Malaysian achievement in reducing income inequality between 1976 and 1990 is also impressive with the Gini ratio falling from its peak of 0.529 in 1976 to 0.446 in 1990. The state of income distribution both in the rural and the urban areas also exhibits similar trends. In terms of the income shares, the top 20% of households reduced their share from 57.7% to 50.5%, while the middle and bottom 40% increased their shares from 31.2% and 11.1% to 35.3% and 14.3% respectively for the same period. However, the Gini ratio has shown a trend reversal in the 1990s when it rose to 0.459 in 1993, 0.462 in 1995 and 0.470 in 1997. Similarly, the income shares of the top 20% of households increased to 51.3% in 1995 and 52.4% in 1997. On the other hand, the shares of the middle and bottom 40% decreased to 35.0% and 13.7% respectively in 1995 and to 34.4% and 13.2% respectively in 1997. This U-turn in income inequality almost wiped out all the gains that were made under the New Economic Policy (Ragayah Haji Mat Zin, 2001).

Nevertheless, the crisis resulted in the moderation of the mean income of the top 20% of households when it fell from RM6,854 in 1997 to RM6,268 in 1999. On the other hand, the mean income of the middle and bottom 40% fell at much lower rates. As such, it is not surprising that income disparity between the urban and rural areas, which rose from 1.7 in 1990 to 2.04 in 1997 moderated to 1.81 in 1999. The Gini also fell to 0.443 from 0.470 in 1997 with the income share of the top 20% of households contracting to 50.5% in 1999, while the shares of the middle and bottom 40% increased to 35.5% and 14.0% respectively. Still, while the crisis puts a break on the rising inequality of the 1990s, this improvement comes with a reduced size of the economic pie.

Malaysia has achieved a remarkable record in the progress of poverty eradication. The poverty incidence has plunged from 52.4% in 1970 to 9.3% in 1995. Over the same period, urban poverty incidence shrank to 4.1% (99,300 households), while the rural poverty incidence fell to 15.6% (319,000 households), indicating that poverty in Malaysia continues to be a largely rural phenomenon. In 1995, the overall incidence of poverty stood at 9.3% numbering 418,000 households. The incidence of poverty was further reduced in 1997 to 6.8% (332,400 households), 2.4% (64,900 households) for the urban areas and 11.8% (267,500 households) for the rural areas. However, the incidence of poverty for 1999 rose to 8.1% (409,300 households), 3.8% (102,700 households) for the urban areas and 13.2% (306,600 households) for the rural areas as a consequence of the crisis (see Ragayah Haji Mat Zin, 2001).

The value and share of Federal Government development expenditure in the various categories for the period 1970 to the present indicate that the percentage share of development expenditure in social services went up in the mid-1980s and then followed a downward trend in the first half of the 1990s (see Table 4, Appendix). Since then this share has increased again to reach a peak in 2001 when almost half of the development expenditure has been allocated to social services, particularly education. This

was the result of a continued effort to revive the economy, and the budgets since 1998 continued with an expansionary fiscal stance. Of the additional allocation for development expenditure in 1998, RM1,000 million was directed at social development projects to address and ameliorate the effects of the economic crisis on the lower income groups. In 1999, priority in government spending was given to projects that address structural and socio-economic issues (education and skills training, health services, low-cost housing, and agriculture and rural development), as well as revival of selected infrastructure projects to increase efficiency of the economy (Bank Negara Malaysia, 2000). In order to overcome the weak domestic demand and excess capacity as well as the negative external developments, the government continued with an expansionary fiscal policy resulting in a fiscal deficit of 5.8% of GDP, which is regarded as still within a prudential level. The September event and its adverse impact on the global economy necessitated the government to further inject a stimulus package of RM4.3 billion in September 2001 to contain and minimize the negative spillover effects from the deteriorating global economy (Malaysia, 2001c).

Political System

Malaysia has a parliamentary democracy, with one dominant party. The National Front coalition has won every general election and continues to dictate political affairs. Surpassing power is vested in the Executive, and various laws have been instituted that restrict political freedom or contain social activism. The federal government dictates the content and priority of objectives and policies, but state governments play an important role in overseeing economic development.

The Malaysian development strategy since independence in 1957 has always encompassed the two important objectives of, first, allocating resources in such a way as to ensure the growth of real per capita income and second, ascertaining that income and wealth are distributed in an equitable manner. However, prior to 1970, while the policies implemented during this period were able to attain satisfactory growth, they failed to improve equity or significantly eradicate poverty. This growing inequality – overall as well as along intra-ethnic lines – and persistent poverty was said to be one of the proximate causes of the May 1969 ‘race riots’ which culminated in the proclamation of the New Economic Policy (NEP) in 1970.

The NEP, which was implemented between 1971–90, was hailed as a successful model of redistributing income without sacrificing growth. It was launched with the objective of attaining national unity and fostering nation building through poverty eradication and economic restructuring so as to eliminate the identification of race with economic functions. Since the implementation of this policy, Malaysia has achieved growth, structural transformation, and poverty alleviation and improved income distribution in an ethnically diverse society.

The NEP was succeeded by the National Development Policy 1991–2000 (NDP), which retains the basic strategy of *growth with equity* of the NEP. This in turn was followed by the current National Vision Policy (NVP) contained in the Third Outline Perspective Plan 2001–10. In essence, the NVP represents the consolidation of all

past development efforts (NEP and NDP) to attain a united, progressive and prosperous Malaysian society. The quest of the nation is to become a developed nation in its own mould, and in meeting the challenges towards this end the same strategies expounded in the NEP and NDP of building a resilient, competitive nation and an equitable society to ensure national cohesion and social stability will also be emphasized in the NVP.

1.2 Availability and Quality of Data

The income data used to estimate poverty incidence and income distribution in Malaysia are derived from several official surveys, namely the Agriculture Census 1976 (AgCensus, 1977) and the Household Income Surveys (HIS), which were conducted by the Department of Statistics (DOS). Most are not available to the public except for summary data published in official documents. It is generally agreed that the census/surveys have employed a consistent and comparable income concept and approach in conducting the various surveys. Bhalla and Kharas (Bhalla and Kharas, 1992) asserted that “the overwhelming result from cross-checks of the data is that these surveys have been extremely well conducted, and it is likely that they are amongst the most reliable of the surveys conducted in the developing world”.

Most of the other data reported in this paper are also collected by DOS, which has a reputable reliability in its data collection. However, data relating to the informal sector is scarce, so much so that here the informal sector is restricted to the self-employed and unpaid family workers. Also, there are difficulties in getting access to data, for example from studies conducted by SOCSO. Much important survey data and reports have been concealed from public view; it remains difficult to obtain statistics on a range of issues, particularly those deemed ‘sensitive’.

1.3 Existing Institutional Framework

Generally, the institutional framework in Malaysia consolidates the role of government, and limits the room for movement of trade unions and civil society organizations. The state has assumed a ‘developmentalist’ position, in which formulation and implementation of development plans are held to be the sole prerogative of the state. This type of system asserts that socio-political stability is necessary for smooth state-led development – which includes containing civil activism. Society’s main role is to comply with the terms, co-operate, and perhaps offer suggestions. The activities of unions have been particularly stigmatized in Malaysia; industrial action is considered as disruptive, disrespectful, and unreasonable. The relationship between the Malaysian government and NGOs has been strained, especially for groups that voice dissent at government policy or action.

The 1950 Trade Unions Act outlines procedures for registering and operating a trade union. The Director General for Trade Unions has discretionary power to decide whether to recognize a trade union applying for registration. The Industrial Relations Act 1967 imposes severe strictures on collective bargaining, going on strike and other forms of industrial action. Trade unions are generally small and fragmented. The de-

definition of a trade union – as one that comprises workers in a particular trade, occupation or industry – has been used to disapprove the expansion of membership or the establishment of large unions (Ayadurai, 1993).

Recent data statistics confirm that the institutional framework continues to restrict trade unions. Until 2000, there were only 577 unions in Malaysia. This small number of trade unions, in spite of a substantial number of applications for trade union recognition (184 in 2000), reflects the low rate of approval and the power vested in the Director General's hands. Unions had a total of 734,525 members in 2000, making for an average union membership of 1,270 members.² In other words, only 8.2% of Malaysian workers were unionized in 2000³, which is a drop from 9.9% in 1990 and 11.8% in 1982 (Zulkifly and Ishak, 1998). In-house or enterprise unions have also become more common.⁴ The declining trend in membership and gravitation toward in-house unions mirrors a shift away from industrial negotiation to a market-driven and decentralized form of industrial relations. Activities of unions are subdued, as corroborated by industrial action incidences – or lack thereof. In 2000, only 11 strikes or lockouts and 22 pickets were recorded.

In a wider context, combined bodies or large unions may gather sufficient momentum to make larger impacts. The Malaysian Trades Union Congress (MTUC) was formed in 1950, as an umbrella body to represent unions. Because it encompasses various sectors, it has not been approved as a union. Thus, the MTUC has the status of a peak society, and hence cannot engage in the activities of trade unionism. It has advocated worker concerns, though its leaders often face criticism for not pushing the labour agenda enough, or for capitulating to government or employer terms too often. The plantation sector got as far as instituting a minimum wage, but at a level that can scarcely guarantee subsistence.⁵ The National Union of Plantation Workers, which led the campaign, is the union with the largest membership.

At the other end of the bargaining table, employers have generally had the upper hand in negotiations. Malaysia's industrialization strategy has placed high emphasis on employer interests. The Malaysian Employers Federation (MEF) was established more recently, in 1978. The favourable policies that employers enjoy pre-date the formation of this group, although the MEF occasionally publicly advocates employer interests. Tri-partite discussion and negotiation take place within organizations, such as on the Employees Provident Fund (EPF) board, which includes representation from the government, employees' (including the MTUC) and employers' representatives. The views of the MTUC, MEF, and government are sometimes solicited for public enquiries related to industry. Tri-partism, however, cannot be said to be equilateral:

2 This compares with 1989, when there were 369 trade unions with 560,339 members, with an average of 1,520 members.

3 Data obtained from Malaysian Ministry of Human Resources website, <http://www.jaring.my/kms>.

4 Private sector membership of in-house unions, as a proportion of total union membership, increased from 6.5% in 1982 to 29.7% in 1992. Corresponding figures for the combined public and private sector are 24.6% in 1982 to 41.8% in 1992 (Zulkifly and Ishak, 1998, Table 9.5).

5 The fixed component of the minimum wage of RM325 even falls under the Peninsula poverty line of RM510. Productivity and commodity price factors are to determine the plantation worker's income beyond RM325.

disproportionate weight at the negotiating stage tends to reside on the government and employer fronts. Nonetheless, the MTUC has recently raised significant objections to EPF approved policies.

Directly related to social protection are two main statutory bodies: one each for old-age savings and social security. The EPF, established in 1951, serves foremost as a retirement savings fund. With the 1969 Employees Social Security Act, the Social Security Organization (SOCSSO) was formed to cover accident and death incidences on the job. The concept and application of social security, however, has remained contained to the provision of injury and incapacitation benefits. This legislative conception, though termed social security, did not introduce a full-scale institutionalization of social insurance or social assistance.

The 1997–98 economic crisis seems to have altered perceptions somewhat, due to the sheer magnitude of adversity that workers and vulnerable groups endured. The inadequacy of existing social protection measures was exposed, for instance in retrenchment benefits, urban poverty and insurance of foreign workers. This is a significant development, though many gaps remain to be filled – the longer term implications are less certain. We witness continual outcries against abuse of EPF funds, primarily through purchasing shares of politically connected companies, and the low dividend resulting from such misplaced investment.

1.4 Government Support

The Malaysian government has maintained a cautious distance from involvement in social protection. Historically, this ideological stance may be traced to the Communist emergency period of 1948–60, during which trade unions were labelled as leftist insurgents. Socialist parties also posed a credible political threat to the establishment until the 1960s. The lack of trade union penetration and civil organization, over time, contained social pressures for state welfare provisions. The NEP introduced a developmental programme oriented toward poverty alleviation and income redistribution. Understanding and application of social welfare, thus, took the form of affirmative action, primarily on ethnic grounds.

Thus, poverty reduction and income redistribution policies find more sympathy than social protection. The government plays a key role in propagating lukewarm perceptions toward various instruments of social protection. Existing social institutions are generally regarded as sufficient; the government has not indicated any desire to substantiate or expand the instruments of social protection on a wide scale. The country has adopted development strategies in line with mainstream ideology, which emphasizes the private sector and employs supply-side strategies such as human resource development and labour flexibility. These strategies, in line with a growth-centred development formula, tend to stress market outcome as the determinant of welfare. Perceptions that social safety nets induce indolence and discourage productivity have been perpetuated till present day.

1.5 Traditional and Contemporary Perception of the Social Protection System

While the coverage of the formal social protection system in Malaysia is greatly inadequate, transfer payments within the extended family have acted as an informal shock absorber in times of economic downturn. Children who earned a steady income normally try to send some money to support their ageing parents or needy relatives, implying that solidarity and justice are important values in the Malaysian society. The Muslims are supposed to pay the religiously compulsory 'zakat' to the state religious department or pay directly to those who qualified, particularly the very poor. Moreover, in developing countries such as Malaysia, traditionally the family and kinship and community-based institutions, like mutual benefit societies, catered for needy people. For example, the agricultural and the fishing sectors rely strongly on their respective cooperative societies for financial, social and moral support in cases of misfortune. In this instance, the Farmers' Association and the Fishermen's Association, initiated by the government, were established for the purpose of promoting the welfare of its members, but membership of these occupational cooperatives is not obligatory. However, industrialization and urbanization plus social mobility have resulted in the disintegration of traditional forms of social protection. Development creates the need for formal social security provisions.

A more progressive tax system would be more easily acceptable to the people in the lower income group since those who could not really afford to pay would not have to pay and yet would be likely to qualify for benefits. However, this type of tax regime is no longer tenable in the era of liberalization and globalization when each government is forced to lower its taxes in order to make the country a more competitive place for doing business in order to attract FDI. While certain insurance schemes might be a more attractive alternative to taxes, the government has to come in to pay for the premiums of those who simply could not afford to pay. In its poverty eradication strategy, Malaysia would like to avoid the 'dependency syndrome' and would like to assist the needy through job creation rather than forking out subsidies. Hence, when the Eighth Malaysia Plan targets poverty incidence to be reduced to 0.5% in 2005, it envisages that only these people will be left under poverty to be assisted by transfers.

2. Review of the Existing System

Contemporary social security schemes in Malaysia derived its origin from provisions introduced during the colonial era. Malaysia's social security schemes tend to cover those in the waged or salaried groups only. The earliest social security provisions were a workmen's compensation scheme, established in 1929, and an employer's liability, sickness, and maternity scheme for plantation workers, introduced in 1933 (Midgley, 1984, p. 144).

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

The formal sector in Malaysia comprises organized and registered economic activities that operate within the legal institutional framework, and generally generate regular wages and incomes. Employers are required to comply with legal social protection institutions, in particular old-age savings for all employees and accident/death insurance for low-income workers. Workers have the option of joining trade unions, although subject to severe restrictions as mentioned above. Working conditions and hours also have to fall within certain limits, and workplaces abide by safety regulations.

Although the formal sector, compared to the informal sector, enjoys obvious advantages of state priority, higher potential for income generation, capital intensity and technical progress, the returns to economic growth from a largely capital accumulation regime have been diminishing. One of the main problems faced in the formal sector is that it is not very efficient after the mid-1990s; labour productivity registered negative growth in 1998 (see Table 4). Labour productivity did pick up in 1999 and 2000 but fell again in 2001. Unit labour cost and real wages also rose significantly last year. The formal sector is dominated by the private sector, particularly since Malaysia embarked on privatizing many of the public utilities and other non-financial public enterprises from the mid-1980s. Malaysia once had an obvious comparative advantage in natural resource intensive and unskilled labour intensive industries, but now has a comparative advantage in industries which are technology intensive (see Table 5, Appendix). A pressing challenge ahead is how well Malaysia forges towards skill-intensive industry and services. In the long term, there are potential positive consequences of advancing to high technology and high-skills production, in the form of higher wages and abilities to allocate toward savings and insurance.

Social protection measures exist for workers in the formal sector – limited as they are. Receiving these benefits, however, is contingent on the participation of employers and employees, and on the monitoring activity of government authorities. Social protection has not been accorded high priority in economic development – in policy and practice. However, the need for state-sponsored or state-coordinated social schemes will rise further, in the continuing climate of volatility and with the diminishment of the family support tradition. The Malaysian government has demonstrated a commitment to ‘social expenditure’. Nonetheless, the bulk of this expenditure goes towards education and health facilities and provisions (see Table 3).

2.1.2 Social Insurance and Savings Schemes

Currently there are several formal social security schemes in the country, although not all are national in coverage and function. Only employees in the government service are entitled to receive pensions upon retirement while all other employees are required to contribute to an old-age retirement scheme known as the Employees Provident Fund (EPF). The coverage of these social security schemes is shown in Table 5.

Table 5: Retirement Income Coverage, 2000

	Number	% of total
Total working population	9,573,000	100.0
EPF members*	9,990,000	104.36
Employees under Government Pension Scheme	118,854	1.24
Registered foreign workers	732,588	7.65
Estimated foreign workers who are not registered	500,000	5.22
Estimated Malaysian workers not covered by any formal retirement scheme	585,600	6.12
Estimated working population not covered by any formal retirement scheme	2,877,300	30.06

* Exceeds 100.0% since a retired worker can still be a member.

Source: Public Services Department, cited in Rajasekaran, 2001.

i. Employer's Liability Scheme

The employer's liability scheme covers mainly two types of benefits. Firstly, employment injury compensation is provided under the Workmen's Compensation Act, 1952, and secondly, sickness and maternity benefits are provided under the Employment Act, 1955. Paid sick leave entitlement, as stipulated by the Employment Act, 1955, depends on the employee's length of service. It ranges from 14 days for those employed for less than two years, and 18 days for those employed between two to five years, to 22 days if the employee has served the employer for more than five years.

Maternity protection is one of the few areas where employees in the private sector get better benefits than employees in the public sector. In general while contribution rates are higher in the private sector, benefits tend to be less compared to the public sector. Yet in terms of maternity leave, employees covered by the Employment Act 1955 enjoy a longer period to recuperate from birth. All female employees covered by this Act are entitled to 60 days maternity leave, subject to a maximum of five surviving births, plus a maternity benefit which is an amount equivalent to her wages at the time of confinement. This sum should be paid even if the employee dies (from any cause) during the maternity leave.

Since 1993, the Workmen's Compensation Act is particularly important to foreign workers in Malaysia. Previously these workers were covered by the SOCSO. However, with the huge influx of foreign workers, SOCSO found it increasingly difficult to cope with the problems of providing compensation to workers who have left the country. Foreign workers are employed in high-risk industries such as construction, where the number of accidents is high. Workers who were involved in work-related accidents and were no longer able to work returned to their home countries. Paying out the compensation on a monthly basis could not be managed smoothly by SOCSO. Tracing the families of foreign workers who have died was equally difficult. Hence, the Ministry of Human Resources revived the Act.

The schemes discussed are enforced by the Labour Department and are entirely the responsibility of the employers, who are legally bound to meet the costs and provide benefits to their workers who qualify for such benefits. Since the responsibility of

payment of compensation is placed on the employer, it may be a disadvantage to employers who are not financially stable. They might find it difficult to discharge their obligations to the injured workers, particularly if the claims involve heavy financial liabilities arising out of permanent disablement or fatal cases. Thus, in order to prevent small or financially weak employers from becoming insolvent, it is a common practice for employers to purchase commercial insurance plans to cover their liabilities under the workmen's compensation schemes. Payment of compensation is not automatic, and claimants might encounter delays and difficulties in demanding their claims. Moreover, the payment of a lump sum has its disadvantages as the lump sum often diminishes in a short period and the claimant might become a charge of public welfare.

ii. Civil Service Pension

The Government Pension Ordinance of 1951 introduced a non-contributory pension scheme for civil servants, which was amended by the Pensions Act of 1980. This scheme provides income protection for all employees in the public sector. Benefits include those relevant to employment injury, disability, superannuation or gratuity payment upon retirement and dependents' pension in the event of death while in service and death after retirement.

The generous provisions of the civil service pension scheme are funded by the government, through tax revenues. Table 6 shows the gradual increase in government expenditure on public pensions and gratuities over the years 1998 to 2002. This trend reflects a system in which members of low-income groups not covered by social security are at a disadvantage, not only by being excluded in coverage but also as a result of their contribution to the general taxation, which are largely provided by the low-income groups through regressive indirect taxation.

Table 6: Expenditure on Civil Service Pensions and Gratuities, 1998–2002

Year	RM million	% of total government operational expenditure
1998	3,658	7.8
1999	3,792	8.1
2000	4,187	7.4
2001	4,891	8.0
2002	4,556	7.0

Source: Malaysia, 2001c.

iii. Employee Provident Fund (EPF)

For the majority of employees outside the civil service, there is the statutory provident fund that provides retirement benefits under the Employee Provident Fund Act, 1951. Currently there are some 9.97 million members of the EPF, and some 318,218 employers. However, there is a portion of members who are not active, that is, they have some amount of savings but do not continue to contribute, perhaps due to un-

employment, or for the reason that they are civil servants who have been absorbed into the public pension scheme,⁶ or foreign workers who have left the country. Table 7 gives a picture of the membership and employer situation from 1996 to 2000, while Table 8 shows the wage structure and balance of members for 1999. The latter reflects that a large majority is earning less than RM2,000 a month.

Table 7: Number of Employers and Members 1996–2000

Year	Total members (million)	Active members (million) (% of total)	Employers
1996	8.05	4.18 (51.9)	276,417
1997	8.27	4.31 (52.1)	296,299
1998	9.16	4.65 (50.7)	297,792
1999	9.54	4.78 (50.1)	301,191
2000	9.97	5.03 (50.4)	318,218

Source: EPF, 2000.

Table 8: EPF: Wage Structure and Average Balance of Members, 1999

Wage range of members (RM)	Active members in wage range		Average balance in 1998 (RM thousand)
	Number	Percentage of total	
Up to 500	1,335,175	27.9	5.9
501 – 1,000	1,560,620	32.6	12.6
1,001 – 2,000	1,084,565	22.7	29.5
2,001 – 3,000	336,902	7.0	50.2
3,001 – 4,000	126,891	2.7	74.8
4,001 – 5,000	67,648	1.4	98.4
5,001 – 6,000	39,136	0.8	118.9
6,001 – 7,000	24,805	0.5	141.8
7,001 – 8,000	17,409	0.4	162.7
8,001 – 9,000	11,302	0.2	179.6
9,001 – 10,000	9,320	0.2	199.1
More than 10,000	170,401	3.6	265.9
Total	4,784,174	100.0	31.9 (Total average)

Source: EPF, 1999, p. 56; Lee Hock Lock, 2001.

The EPF scheme consists of individual and entirely separate accounts for each worker. Contributions are paid by workers and employers, and these accumulate to earn dividends until the amount is paid out on the occurrence of the prescribed contingencies of retirement or death, provided that retirement is not before the statutory age. Contribution rates for employees and employers have increased over the years. Between 1952 and June 1975, both employee and employer contributed 5% each, but this increased to 6% and 7% respectively between July 1975 and November 1980, 9% and 11% between December 1980 and December 1992, 10% and 12% between January

⁶ A majority of civil servants contribute to the EPF for a period of three to ten years before they are absorbed into the Civil Service Pension scheme.

1993 and December 1995, and 11% and 12% between January 1996 and December 2000. Since then, the government has reduced the employee's contribution to 9%.

Each worker's EPF account is divided into three components.

1. Account 1 comprises 60% of total savings and can be withdrawn only upon reaching the age of 55 years;
2. Account 2 comprises 30% of total savings and withdrawals are allowed for the purpose of purchasing a house, a computer and education;
3. The last 10% of the savings are deposited into Account 3, and withdrawals are allowed for medical expenses.⁷

Table 9 shows the amount of contributions and withdrawals for 1996–2000.

Table 9: Annual Contributions and Withdrawals, 1996–2000 (RM Million)

Year	Contributions	Withdrawals
1996	12,899	3,638
1997	14,614	5,679
1998	14,782	8,441
1999	15,192	7,124
2000	17,040	9,961

Source: EPF, 2000.

The Fund has provisions for periodical withdrawal of savings upon reaching retirement age, so as to ensure that there is a guaranteed flow of income. Still, this does not ensure that account holders are not tempted to withdraw all their savings, especially those in the lower income groups whose savings are small. In 2000, for example, only 0.06% of the amount withdrawn was for the purpose of periodic payments.

Provident funds, though useful in their own way, have their limitations. It provides for a measure of protection for old age, but where invalidity or permanent disability is concerned, it can hardly provide the desired or adequate income security. Lump sum payments do not provide the life-long security as is available under a social insurance scheme that provides periodical payments throughout life. Furthermore, the provident fund has the disadvantage of not pooling risks. Benefits are based directly on contributions and, therefore, they are not always sufficient to deal adequately with contingencies that may arise. The lump sum payment may be small and is soon used up. This problem is particularly pressing in the case of workers who are disabled or die at a young age or who join the fund shortly before retirement. Moreover, the dividend rates of the Fund have fluctuated over the years. When the country achieved its independence in 1957 and economic development accelerated, the rates ranged between 5% and 7%, with a peak of 8.5% between 1983 and 1987, but since then have

⁷ EPF withdrawals for medical expenses are envisaged for payment of expensive surgeries, etc. The amount may not be sufficient to cover the total costs incurred. The public are encouraged to buy health insurance plans under the *Sihat Malaysia* programme, overseen by the government. Medical services are free for low-income people who are not covered by the 1955 Employment Act or the 1952 Employer's Liability Act, or are not employees in the public sector.

declined to 6% in 2000 (EPF, 2000, p. 38). Besides, 72% of EPF contributors who withdraw their savings at the age of 55 tend to spend all funds within three years.⁸ Thus there is a need for the EPF to educate its members on how to use their savings prudently upon retirement since life expectancy has risen and these figures are expected to increase to 82 and 85 for males and females respectively by the year 2020.

In general, the EPF was established mainly for employees in the formal sector, that is, employees who have a regular paymaster. Thus, workers in the informal sector and the self-employed, such as petty traders and hawkers, are not compelled to have accounts with EPF and may contribute on a voluntary basis. There is no enforcement by the authority to encourage them to open up provident fund accounts. Unlike in some countries where business licenses may not be renewed unless there is proof of provident fund contributions, this prerequisite is not practiced in Malaysia. Hence, it is crucial for the government to look into this matter in the near future.

iv. Workmen's Compensation Scheme

The Workers' Compensation Scheme was conceived from the Workers' Compensation Act, 1952. The injured or deceased workman is compensated by his employer, who is required to insure his company against such liabilities. Unlike SOCSO, this scheme operates as a law governing the terms and amounts of compensation in the case of death or accident. It does not handle the funds itself; the employer is fully responsible for the social insurance through private companies.

The benefits under this scheme are as follows:

1. Death: a lump sum equal to 60 months' earnings or RM18,000, whichever is lesser;
2. Permanent total disablement, according to age of worker (of the following, whichever is lesser):
 - a) less than 16 years: 108 months' salary or RM23,000;
 - b) 16 to 18 years: 84 months' salary or RM23,000;
 - c) more than 18 years: 60 months' salary or RM23,000.

This scheme never attained much significance in scope or magnitude, particularly since the establishment of SOCSO in 1971. Nonetheless, it has been utilized by foreign workers, some public servants and workers in statutory bodies. More recently, the Workers' Compensation Fund has been modified to be a major source of indemnity for foreign workers in case of injury or death. In March 1998, the Foreign Workers' Compensation Scheme was formed to cater primarily to foreign workers' insurance needs.

Benefits for the Foreign Workers' Compensation Scheme include:

- a) RM2,000 'ex gratia' payment for death resulting from commuting to work;
- b) a maximum of RM20,000 payment for death or permanent disability outside of regular work hours;

⁸ Statement by the Chairman, EPF Board, 21 January 2002.

- c) guarantee of RM4,800 payment for cost of sending worker to his/her home country in the case of death or permanent disability.

From 1997 to 1998, the total nation-wide number of cases increased (2,285 to 2,716) but the amount of benefits paid remained constant (RM3.85 million and RM3.86 million) (MHR 1998: 37). Another source notes a significant rise in cases and benefit payments between 1998 and 1999 in Peninsula Malaysia: respectively, 3,224 to 3,951 and RM4.6 million to RM5.4 million. This data discrepancy reflects the poor standard of information provision. Nonetheless, the upward trend is clear. Still, the total amount of funds disbursed is miniscule, considering the approximately 730,000 registered foreign workers in Malaysia.

v. Employment Injury Insurance and Invalidity Pension Schemes

The Employees' Social Security Act, 1969 formed the basis of a social insurance system in Malaysia. It also meant that for the first time the principle of social insurance and the pooling of risks and finances were introduced in the country. The scheme covers workers who earn less than RM2,000 a month and is financed by contributions by the workers and employers, and administered by a corporatized central government agency, that is, the Social Security Organization, or popularly known as SOCSO. However since April 1993 foreign workers are exempted from coverage by this scheme and they have to rely on the Workmen's Compensation scheme instead.

There are two types of benefits that are administered by SOCSO, namely, the Employment Injury Insurance scheme and the Invalidity Pension scheme. Under the former, the contribution rate is 1.25% of the employee's monthly earnings, and in the latter scheme it is 1%; the contributions are shared equally between the employer and the employee. Under the first scheme, the benefits provided include medical benefit, temporary disability benefit, permanent disability benefit, dependents' benefit, death benefit, and rehabilitation benefit. On the other hand, the Invalidity Pensions scheme provides coverage against invalidity or death due to any cause. The benefits provided are related to temporary or permanent disability and rehabilitation, funeral grant, survivors' pension and educational benefits. Benefits are paid out in the form of periodical payments, calculated on an earnings-related basis.

Contributions by employers may appear as a transfer of income from employers to workers. Nevertheless, in reality it is difficult to comprehend whether employers' income are really affected by social security contributions. In this instance, the real incidence is on the consumers, as the employers are able to assume their contributions as production costs and transfer them to consumers, and thus social security benefits financed out of employers' contributions represent a redistribution of income from the consumers to the insured persons.

Table 10 shows the registrants, accidents and benefits paid from 1996–2000. The number of registered employers and employees has been increasing during the five-year period. However, the number of registrants and active membership diverge greatly. For example, although some 385,916 employers are registered with SOCSO

in 1999, only 267,197 or 69.4% are active employers, having made at least one contribution in that year. Similarly some 8.598 million employees are registered, but of these only 4.61 million or 53.6% are active members. There were 106,508 reported industrial accidents in 1996, but this figure has come down since then to 73,400 in 2000. On the other hand, commuting accidents and the number of recipients have been rising. Total contributions in 1999 amounted to RM898.7 million; while benefit expenditure amounted to RM497 million. At present it is believed that SOCSO's expenditure far exceeds the rate of increase in contributions, which stands at 60% of SOCSO's earnings.⁹ One reason for this increase, it is believed, is the abuse of the workplace disability assessment by doctors, employers and employees.

Table 10: SOCSO, Number of Registrants, Accidents and Benefits Paid, 1996–2000

	1996	1997	1998	1999	2000
Registration					
Registered employers	305,500	338,794	358,543	385,916	415,523
Active employers	217,524	236,593	253,305	267,197	254,901
Registered employees	7,613,635	8,252,680	8,428,589	8,598,005	8,877,304
Accidents					
Reported industrial accidents	106,508	86,589	85,338	92,074	73,400
Commuting accidents	14,771	13,503	16,759	18,309	19,276
Death cases (settled)	1,020	1,473	1,273	984	911
Recipients of benefits					
Temporary disability	80,320	78,315	67,168	69,491	73,987
Permanent disablement	17,038	19,374	21,130	17,264	20,009
Dependant's benefit	16,516	20,137	23,200	25,149	25,900
Invalidity pension	10,040	11,686	13,316	15,724	18,324
Survivors' pension	43,377	59,194	67,034	75,189	82,113
Total	167,291	188,706	191,848	202,817	220,333

Source: SOCSO (<http://www.perkeso.gov.my>).

Total investments by SOCSO amounted to RM4 billion in 1999. Some RM1.63 billion are invested in government securities, while another RM1.87 billion is invested in bonds used to finance vast development projects such as the Kuala Lumpur International Airport, the North-South expressway and others. This reinforces the argument that social security contributions play a prominent role in the supply of long-term investment funds for the country's economic development.

vi. Savings Schemes

There are quite a number of unit trust funds in the market since the number of approved funds increased from 67 in 1995 to 127 in 2000 with the number of investors rising from 6.8 million to 9.6 million over the same period. These unit trusts include the government guaranteed schemes under the *Permodalan Nasional Berhad*, such as the National Unit Trust (ASN) and the ASB (Bumiputera Unit Trust), which are

⁹ Personal communication between the writer and a SOCSO official.

only open to Bumiputeras (ethnic Malay citizens), and the *Amanah Saham Wawasan 2020* (open to all Malaysians between the ages of 12 and 29) and the *Amanah Saham Malaysia* (also open to all Malaysians). These savings schemes have yielded much better returns than the EPF and fixed deposit rates provided by the banks. In order to raise the income of the hardcore poor (those with income equal or less than half the poverty line), the government launched the Bumiputera Unit Trust (ASB)-PPRT loan scheme in 1992. This programme enabled each hardcore poor household to obtain a RM5,000 interest-free loan to participate in the ASB scheme. A total of RM75.7 million was paid out to those who participated in the scheme by the end of 1995 in the form of dividends and bonuses.

2.1.3 Social Assistance and Services: Benefits and Transfers

Under this scheme monetary benefits and other benefits in kind such as clothing and food parcels, as well as apprenticeship training and small business launching-grants are provided by the government and administered by the Department of Social Welfare, under the jurisdiction of the Ministry of National Unity and Social Development. This scheme is strictly means-tested, and low income is the principal determinant of eligibility. However, benefits are not provided for claimants who have relatives that are liable and able to support them.

The federal government sets limits for the amount of public/social assistance given to claimants. Benefits are based on the total monthly income of a family,¹⁰ and should not be above RM400 a month. Monthly allowances are given at a rate of RM80 per person, up to a maximum of RM350 per family. Old people above the age of 60 years who are destitute, not able-bodied and do not have any relatives to depend on for support are eligible to apply for assistance of RM130 a month. Benefits at the state level vary between RM40 per person in Negeri Sembilan to RM135 per person in Trengganu; these levels are set by each state. Table 11 shows the differences in levels of benefits in each Malaysian state.

Besides, there is a tendency for benefits to be biased towards claimants in the urban areas. Theoretically, all needy people qualify for social assistance, but most rural dwellers are excluded, either through ignorance or through the administrative technique of limiting procedures for receiving and processing applications in the large urban centres.

¹⁰ For the first half of the Eighth Malaysia Plan, the income eligibility criterion for assistance is set at RM1,200 and below, per month per household (Malaysia, 2001a).

Table 11: Public Assistance¹¹

States	Minimum (RM)	Maximum (RM)
Federal Territory	80	250
Johor	55	155
Kedah	70	200
Kelantan	70	120
Melaka	90	310
Negeri Sembilan	40	80
Pahang	80	235
Perak	95	200
Perlis	70	200
Pulau Pinang	70	200
Selangor	95	235
Trengganu	135	335
Sabah	80	180
Sarawak	80	350

In general, we may safely classify public or social assistance in Malaysia as residual welfare. Economic development planners regard the role of social welfare services as marginal to the development process precisely because these services do not generate income. What is urgently needed is a reassessment of the role social assistance can play in ameliorating the problem of poverty and deprivation. The Department of Social Welfare has acquired experience mostly in assisting the handicapped, elderly, and juveniles; social income transfers to the destitute have not advanced substantively into social income transfers and social protection schemes.

2.1.4 Auxiliary Schemes

There are a number of auxiliary social security schemes that are ad hoc in nature.

i. Rubber Smallholders' Accident Compensation Scheme¹²

This scheme was initiated in March 1982 by the Rubber Industry Smallholders' Development Authority (RISDA). This was a social insurance scheme, which covered all registered smallholders and their families. Smallholders contribute a small sum of RM8 annually.¹³ Benefits provided included a lump sum payment of RM10,000 for contingencies arising out of death or permanent disability of the smallholder, RM200 a year for medical expenses and a weekly allowance of RM30 for a maximum of 52 weeks for loss of income due to injury or sickness. However, this scheme was repealed in May 1987. Smallholders felt this scheme was not run according to Islamic principles, but what was pertinent was the fact that claims far exceeded contributions by smallholders.

11 Personal communication between writer and an official of the Welfare Department Headquarters, Kuala Lumpur.

12 Information in this section is based on the writer's interview with an official of RISDA.

13 This scheme was highly subsidised by the government, partly due to the fact the smallholders paid cess (tax on latex) and partly because this scheme had underlying political objectives.

ii. Fishermen

(a) Fishermen's Group Accident Scheme

The Fishermen's Association has initiated an insurance scheme for boat owners, who have to buy an insurance plan for their boat and workers each time they renew their licences. In the past fishermen were also encouraged to purchase some form of insurance for themselves, at the rate of RM5 per month, but the response was poor. Furthermore, there is no administrative mechanism to ensure they comply with this suggestion. Generally, therefore fishermen do not have adequate social security coverage.

(b) The Trengganu Fishermen's Welfare Fund

In January 1978, the Trengganu state government introduced a system of social security for contingencies arising out of accidents at sea specifically for fishermen who are born and residing in the state. The fishing industry is one of the main traditional employment sectors (the other one being the agriculture sector) in this state. Currently, there are some 2,300 fishing boats in operation in Trengganu. This scheme, known as the Trengganu Fishermen's Welfare Fund, is financed fully by the state government, and administered by the Trengganu Fisheries Department. Fishermen need not register formally for the scheme, but they must be sons of Trengganu or have resided for at least ten years in the state. Furthermore, they must spend at least 120 days in a year employed as fishermen in order to be eligible for the benefits. However, they are encouraged to be members of the Fishermen's Association.

Benefits include a lump sum payment of RM10,000 for death due to an accident at sea, or RM6,000 for invalidity or permanent loss of disability as a result of accidents at sea. Other benefits include medical expenses, hospital allowances (RM10 daily, for a maximum of 90 days), compensation for loss of boat, and contributions towards the cost of repair of boats. Although this scheme does not guarantee permanent income maintenance for permanently disabled fishermen or survivors (in cases of death), it does provide some form of assistance to fishermen. Thus, this proves the commitment of the state in recognizing the fishermen's contribution towards the economy.

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

A large section of the population, in particular the self-employed, petty commodity trades, and those employed in the informal sector, are excluded from any formal social security measures. We should recognize the importance of this sector in providing job opportunities for the lower income groups. Quijano-Obregon (Quijano-Obregon, 1974), for example, sees the informal sector as a marginal activity at the peripheral of the formal sector, which provides a potential source of workers for the other sectors.

There is no official categorization of the informal sector in Malaysia. Thus, in this paper this refers to the self-employed (own account and unpaid family workers,

including petty traders, food and merchandise hawkers, insurance agents, and others). In the context of social protection, it is quite likely that these self-employed do not have access to formal protection, or do not involve themselves in such programmes. Registering as EPF contributors, for instance, requires declaring incomes that they may not wish to disclose. In 1980, there were 1.14 million self-employed or 26.2% of the employed population. This number rose to 1.42 million in 1991 or 23.7% and 2.03 million in 1999 or 23% of the employed population. The distribution of employed persons by employment status, strata and sex is shown in Table 12. In 1999, there were 427,800 or 13.9% of males compared to 253,900 or 14.5% of females who were self-employed in the urban areas. In contrast, there were 897,600 or 32.4% of males and 453,800 or 36.6% of females who were self-employed in the rural areas. Thus, the informal sector features relatively more in the rural than in the urban areas. This is not surprising as a majority of the self-employed is found in the agriculture, forestry and fishing sector (see Table 13). Most of the self-employed in the urban areas are found in the wholesale and retail trade and service sector.

Table 12: Distribution of Employed Persons by Employment Status, Strata and Sex 1999 (thousand)

Employment status	Urban				Rural			
	Male	%	Female	%	Male	%	Female	%
Employer	130.4	88.35	17.2	11.65	47.9	67.57	6.8	12.43
Employee	2,523.6	63.12	1,474.4	36.88	1,823.9	70.03	780.5	29.97
Own account worker	385.2	71.81	151.2	28.19	747.1	78.42	205.6	21.58
Unpaid family worker	42.6	29.32	102.7	70.68	150.5	60.64	248.2	62.27
Total	3,081.8	63.84	1,745.5	36.16	2,769.4	69.05	1,241.1	30.95

Source: Malaysia, 2000.

Table 13: Distribution of Workers in the Informal Sector by Industry, 2000

Sector	Employee	Own account worker	Unpaid family worker
Agriculture, forestry and fishing	686,500	704,600	304,900
Mining and quarrying	26,600	600	0
Manufacturing	1,970,000	110,700	19,300
Electricity, gas and water	47,500	500	0
Construction	649,500	102,100	3,400
Wholesale and retail trade, restaurants and hotels	1,059,400	417,200	198,300
Transport, storage and communications	336,900	75,100	2,400
Finance, insurance and real estate, and business services	419,100	27,400	800
Community, social and personal services	1,747,400	140,700	8,900
Total	6,942,900	1,578,900	538,000

Source: Statistics Department Malaysia.

2.2.2 Problems and Features of the Informal Sector

The self-employed (including unpaid family workers) represent some 11% of the total workforce. Usually they have low educational attainment and possess minimum skills deemed necessary for advancement. More often than not, they are exposed to potential risks from natural, social and economic hazards, are least protected against these hazards compared to employees in the formal sector. They face economic insecurity due to unstable income; while at the same time they lack the skills and capital needed to diversify into other forms of income generating activities or seek better opportunities elsewhere.

2.2.3 Social Assistance and Services: Benefits and Transfers

Zakat

The *zakat* is an Islamic welfare institution that collects funds and distributes them to a specified list of qualifying recipients. In the modern Malaysian context, it may be considered a form of social assistance. Although it operates openly and has a formal structure, the means of allocating assistance are more informal, i.e. based on the deliberation of *zakat* councils subject to Quranic guidelines, not strict and consistent economic criteria. *Zakat* collection and distribution is not centralized at the national level, but is overseen by 14 Islamic Councils – one in each state, and the Federal Territories. Beneficiaries may qualify under one of eight categories.¹⁴ The regulations are also decentralized to the state level. *Zakat* councils comprise elected politicians, religious officials, academics, businessmen, and other prominent individuals. Nationwide *zakat* collection amounted to RM203 million in 1997, RM198 million in 1998, and RM195 million in 1999. We are unable to ascertain the specific direction of these funds; their disbursement is decentralized, to a vast array of benefits. As a whole, however, approximately RM150–200 million is distributed through *zakat* channels (Zakat Report, 1999–2000, p. 102–103). The destitute and poor are known to comprise a large portion of *zakat* recipients, although in recent years more priority has been given to fund transfers for upholding the Islamic faith.

This system reaches out to needy persons, but faces limitations in scope and size. In scope, the eligibility of recipients is based on scriptural criteria as decreed in the Quran, not necessarily on economic need, such as measured by household income. In addition, this form of social assistance is only applied to Muslims. Accumulation of funds flows through one channel: *zakat* collection by relevant establishments. It operates more as a transfer payment system than an investment mechanism.

Similarly, *Zakat* functions more as a poverty assistance programme, although it also serves as a means of social assistance. Its efficacy as the latter will depend on the speed at which it identifies the needy and extends aid to them. A difficulty with administering *zakat* as a social assistance mechanism is the reference to static criteria and lack of dynamic, functional evaluation. For instance, a sustainable social assis-

¹⁴ Zakat may be granted to the destitute, poor, zakat collectors, new converts and travellers, and for payment of debts, freeing of slaves and upholding the religion.

tance programme will arguably function more effectively if employment status or insurance availability are added to income level as a means of adjudging need.

2.2.4 Voluntary Schemes

The self-employed may make voluntary contribution to the EPF. However, this stipulation is neither carried out assiduously by the self-employed nor is it enforced by the relevant authorities. Officials of the EPF often cite inadequate staff as a reason for not being able to attend to this matter fully. Unless they are compelled by the law to make social security contributions, the self-employed may regard voluntary EPF contribution as something insignificant.

2.3 Labour Market Policy

2.3.1 Active Labour Market Policy

i. Creating Job Opportunities

Having a job and earning a sufficient income can be a self-sustaining and preventive step of social protection. However, policies that purposely provide or stimulate employment are difficult to distinguish from general development or poverty reduction policies. Since lower-income or lower-skill workers, or those with little collateral, typically face lower job security and capacity to obtain loans, we may link active labour market policies with efforts to simulate smaller scale enterprise or provide micro-credit.

In this regard, programmes are limited. The Small and Medium Industries Development Corporation (SMIDEC) aims to promote investment, efficiency and technological progress in the sector. Workers in SMIs have less recourse to trade unions to bargain for their concerns, due to the small size of their firm and the near impossibility of setting up industry-wide unions. This amplifies the need for skill development and technological competence. The Human Resource Development Council, discussed below, sets aside a certain portion of its funds for skills acquisition and training in SMIs. However, responses have been lukewarm. The Malaysian government has provided a wide range of financial assistance that caters for the varied needs of the SMIs, but the SMIs still lament that access to these various assistance programmes is difficult (Ragayah, 2000).

Poverty alleviation programmes have perhaps elicited a relatively wider reception. While the government was the main force in eradicating poverty, some NGOs played quite a significant role in cutting poverty incidence. *Amanah Ikhtiar Malaysia* (AIM) is the most well-known NGO involved in reducing hardcore poverty incidence by providing interest-free micro loans to the poor to undertake income-generating activities under close supervision. Similar to the Grameen Bank case, most of the AIM's beneficiaries are women. During the Sixth Malaysia Plan (1991–1995), the government provided RM20 million loan to AIM, while AIM provided interest-free loans worth RM77.1 million to about 36,200 poor and hardcore-poor households to enable them to venture into poultry and livestock rearing and small-scale businesses such as

retailing of groceries, and the servicing and repairing of vehicles. Most of these ventures were successful, as reflected in the increased household income of the participants and the loan repayment rate of almost 100%. During the Seventh Malaysia Plan period (1996–2000), AIM provided micro-credit financing to 22,800 poor families from the RM300 million interest-free loan allocated by the government. In times of greater need, funds can also be injected through AIM for speedier seeding of investments, such as during the 1997–98 crisis, in which the government allocated RM100 million to AIM under the hardcore poverty programme (Jomo and Lee 2000, p. 248). We should note that these job-creating programmes apply to the formal sector only.

Another NGO is the state-based *Yayasan Basmi Kemiskinan* (YBK),¹⁵ which also complemented the government's efforts to eliminate hardcore poverty with the support of private companies. YBK programmes focused on skills training with guaranteed employment, educational assistance and better housing. The private sector provided support to NGO programmes through skills training as well as in-kind and financial contributions to the poor. Among these NGOs are YBK Selangor, *Yayasan Kemiskinan Kelantan* and *Yayasan Membasmi Kemiskinan Kedah*.

ii. Training Schemes

(a) Human Resource Development Fund (HRDF)

The HRDF was established in 1992, under the Human Resources Ministry, to be an agent for training and retraining of workers in the manufacturing and service sectors. The main objective, similar to job creation policies, is preventive: to avoid redundancy or skill deficiency of workers that may stifle their employability or wage-earning capacity. More positively, training and retraining also enhances technological progress and productivity. Employers of a particular size are required to participate, and begin so by registering with the Human Resource Development Council (HRDC) and paying one percent of their wage bill as a levy. The government matches employer contributions of smaller companies. Registered employers are entitled to apply for training assistance, drawing from the balance in their levy accounts. The HRDC co-ordinates various training schemes, it links companies with training agencies, and provides financial assistance from its pool of resources. Most HRDC sponsored training programmes are conducted by the private sector. Participation in the HRDC has witnessed substantial growth in recent years, as shown in Table 14 below. As a proportion of total workers employed in the manufacturing and service sectors, participation is estimated at 7.2% in 1998 and 4.3% in 1999.

The opportunity for this training, of course, is restricted to participating firms, which tend to be already technologically equipped. The distribution of training opportunities, however, is concentrated in certain sectors and regions. Sectorally, the electronics and electrical sector constitutes the largest membership and, accordingly, receives the biggest share of training places and finances. Combined with the telecommuni-

15 Which can be translated as Poverty Eradication Foundation.

cations sector, the two account for 40% of places and 48% of financial support in 1999. In line with the priority given to high-tech industries, the number of workers trained, as well as financial allocation, is heavily skewed toward Johor, the Federal Territory, and especially Penang and Selangor.

Table 14: HRDF, Participation and Finance, 1994–1999

Year	Registered employers		Levy collected (RM million)	Financial assistance (RM million)
	Manufacturing	Services		
1994	3,669	—	73.6	47.8
1995	3,966	778	100.9	89.6
1996	4,393	1,027	126.8	158.9
1997	4,702	1,181	144.5	159.5
1998	4,803	1,323	63.2	141.3
1999	4,948	1,404	82.7	106.1

Source: Human Resources Development Council, Ministry of Human Resources.

Within Penang, the Penang Skills Development Centre (PSDC) is a more localized body that conducts training. Industry-government participation and collaboration has been encouraging, raising the international profile of the PSDC. In the wider context, however, the Centre is very much focused on the core industries of the state – again, electronics and electrical manufacturing.

(b) Training of Retrenched Workers

As mentioned above, the training conducted by the HRDF is primarily for skills upgrading and retraining. That is, the workers involved are sent by their employer, and return to their place of work. Training for the unemployed or retrenched was not specifically organized until mid-1998, after the financial crisis struck. The training scheme for retrenched workers is now instituted, with a government allocation of RM117 million. In 1998 and 1999, respectively, the number of retrenched workers that were retrained amounted to 572 and 426, involving financial assistance of RM2.5 million and RM2.0 million (Jomo and Lee, 2001, p. 253). In 1999, out of the 426, 275 (64.5%) attended courses at the diploma level while 151 (35.5%) attended courses at the certificate level. As for the skills upgrading and retraining, 76 (17.9%) received training in computer/information technology, 166 (38.9%) in technical/engineering disciplines, and 184 (43.2%) in management.

The number of training places and financial assistance that accrues to retrenched workers is almost negligible relative to the total. In 1998, 405,300 places were available with financial assistance of RM113.6 million; in 1999, the corresponding figures were 246,725 and RM97 million. On average, over the incipient two years (1998–99) of this training of retrenched workers scheme, 0.15% of total training places and 2.2% of total financial assistance benefited this particular group.

iii. Job-placement

The Manpower Department within the Ministry of Human Resources offers job-seeking services. Unemployed persons and employers may register with the manpower department, which then attempts to match the two so that workers find new jobs. The department acts as an intermediary. As shown in Table 15 below, between 35% to 40% of officially unemployed workers register with the department. Within this group, about 20% have been placed in new jobs from 1998 to 2000.

Table 15: Registered Unemployed, Vacancies, and Placements, 1998–2000

	New registered unemployed			Placements	
	Number	% of total unemployed	Registered vacancies	Number	% of registered unemployed
1998	114,190	35.9	69,091	20,864	18.3
1999	122,920	38.7	108,318	23,095	18.8
2000	112,835	35.5	123,484	24,738	21.9

Sources: Ministry of Human Resources, various years. *Manpower Department Report*.

Registration and placement programmes have been divided into a few categories – which are relatively new initiatives. First, for retrenched workers, this scheme was launched in January 1998. Retrenched workers numbered 74,899 in 1998, 35,457 in 1999 and 22,785 in 2000. Those that the programme managed to place in new jobs numbered 12,062, 7,548 and 4,917 respectively for a success rate of 16.1%, 21.3% and 21.6%. Second, the registration and placement programme for under-employed rural sector workers was started in May 1997, primarily to increase the incomes of housewives and rubber tappers, who would be placed in factories. Until the end of 1998, 5,485 vacancies were reported, but very few candidates were placed in new jobs. Third, the parallel programme for rural youth was initiated in October 1997, in conjunction with the Ministry of Youth and Sports, and with the collaboration of youth associations and government agencies. Throughout 1998, this programme managed to register 1,282 youths and place 511 of them in factory jobs.

Recently, there has been an increasing use of electronic labour exchange like Job Street, Job Link and Hotspot to match demand with supply. The jobseekers serviced through these agencies are mainly in the professional category.

2.3.2 Passive Labour Market Policy

Basic education is provided broadly in Malaysia. The country registered a high literacy rate of 87% in 2000. This flat rate, of course, does not portray the shape of the distribution of education. Educational attainment statistics of employed and unemployed give significant insight into the status of education in the Malaysian labour force. The vast majority of the employed Malaysian workforce has at least primary level education, and more than half have completed secondary schooling, though the percentages are higher among males and those located in the urban areas (Table 16). Those with primary level of education form the next biggest group among employed

Malaysians, but the situation is the reverse among foreign workers. The proportion with tertiary education, however, is still low, especially in rural areas.

Table 16: Level of Education of Employed Persons, Various Categories, 1999 (%)

Level of education	Overall	Male	Female	Urban	Rural	Malaysian	Foreign
No formal education	6.6	5.2	9.4	3.3	10.6	5.6	13.2
Primary	26.4	28.2	23.0	19.4	34.8	22.8	50.6
Secondary	53.8	54.7	52.0	59.6	46.8	57.8	27.7
Tertiary	13.2	11.9	15.6	17.7	7.8	13.8	8.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Malaysia 2000. *Labour Force Survey Report 1999*, Department of Statistics.

Among the unemployed persons, those with secondary level of education again form the majority followed by those with primary level of education, with the percentages being higher among the males and those located in the rural areas (Table 17). The situation is reversed among those with tertiary level of education, with more females and urban dwellers being unemployed relative to the other groups. Up to 22% of unemployed women have tertiary level education, which is not unexpected since there are more females registered in Malaysian tertiary institutions than males. Currently, there is rising concern for the unemployed graduates who are finding it increasingly difficult to find a job. Some of the ways in which the government is tackling this problem is by encouraging them to further their studies to post-graduate levels, to take courses to enhance their skills or improve their language communications (especially English), or find an attachment in institutions of higher learning as part of their training.

Table 17: Level of Education of Unemployed Persons, Various Categories, 1999 (%)

Level of education	Overall	Male	Female	Urban	Rural
No formal education	2.4	2.3	2.6	2.0	3.0
Primary	15.2	17.8	9.8	14.7	15.8
Secondary	68.4	69.6	65.8	66.3	70.8
Tertiary	14.0	10.3	21.7	17.0	10.5
Total	100.0	100.0	100.0	100.0	100.0

Source: *Labour Force Survey Report 1999*, Department of Statistics.

An ongoing, pressing issue is whether the education system meets the needs of the labour market. Needs are twofold: first, in equipping the workforce with specific skills, particularly in dynamic sectors; second, in cultivating generic analytical and critical capacities to enable workers to be more flexible and adaptable to changing market conditions. There are shortcomings in this respect. For the first, we note that with 500 scientists and engineers per million of the population, Malaysia lags behind

other newly industrializing countries.¹⁶ In general, only 25% of 20–24 year-olds receive tertiary education. Qualitatively, it has been widely acknowledged that graduates from Malaysian education institutions lack the critical and creative thinking skills required in a modern, dynamic economy.

Existing measures of passive labour market policy include:

i. Retrenchment Compensation

Retrenchment practice and compensation is regulated by the Employment Act, 1955. The employee is to be compensated by the employer in accordance with length of service, under the Employment (Termination and Lay-off Benefits) Regulations, 1980:

- Less than one year: no benefit;
- Between one and two years: 10 days wages per year of service;
- Between two and five years: 15 days wages per year of service;
- More than five years: 20 days wages per year of service.

Assistance to retrenched workers has not been made a priority in the past, and continues to be subordinated to other interests, ostensibly under human resource development. Nonetheless, the government made it mandatory for all employers to report retrenchments to the Minister of Human Resources, beginning in February 1998. The first step to assisting retrenched workers is to monitor market dynamics and record job losses.

The number of retrenchments reported to the Ministry of Human Resources increased from 7,773 in 1996 to 18,863 in 1997, then leapt to 83,865 in 1998, before falling to 37,357 in 1999. The drastic rise in 1998 was a direct consequence of the economic downturn, bolstered by the new law making it mandatory for employers to report retrenchments.

ii. National Retrenchment and Unemployment Fund

This fund has been proposed by the Malaysian Trades Union Congress in 1997, to provide benefits to retrenched workers who are not entitled to receive them, and to provide unemployed workers allowances until they get a new job. This proposal has been publicized, but no decision has been made yet. Employers and workers will each make statutory contributions of RM1 per month towards the scheme. The contributions will grow at the rate of RM2 per worker per month, so that contributions from the existing 5 million SOCSO members will amount to RM10 million per month, and RM120 million per year. The quantum of monthly benefit should be based on stipulations of the Employment (Termination and Lay-off Benefits) Regulations, 1980, or according to the terms and conditions of their collective agreements (Rajasekaran, 2001, p. 6). The MTUC recommended that this fund be administered by SOCSO, since it is an established body with an existing network.

¹⁶ The corresponding figures for other countries are 2,728 for Singapore, 2,636 for South Korea, and 350 for China (OPP3, p. 126).

iii. Minimum Wage

Wage regulation is confined to four categories of workers: catering and hotel workers, shop assistants, cinema workers, and stevedores and cargo handlers in Penang. Minimum wage provision is effectively non-existent. The MTUC has proposed a minimum wage of RM900, based on a basket of basic needs (Rajasekaran 2001: 6–7). Productivity-based wage setting schemes may apply in excess of this wage, but the wage received remains above this level. Other groups, especially the Malaysian Employers' Federation, have protested against this minimum wage proposal – and against minimum wage in principle. A key aspect of the debate is whether Malaysia's transition to higher technology and higher value-added industries – which is inevitable given the economy's waning comparative advantage in offering cheap labour – prepares the way for the introduction of a minimum wage. Productivity gains are expected to raise wages, potentially above the minimal level.

iv. Vulnerable Groups of Workers

(a) Foreign Labour

Foreign labour warrants a special mention in this section, for migration into Malaysia's labour market has resulted from an under-regulated labour programme. The first issue to note about foreign labour in Malaysia is that many are unregistered. Thus, they are situated outside the boundaries of formal social protection. More are participating in the Workers' Compensation Scheme, and as noted earlier, in 1998 this institution was specialized in the Foreign Workers' Compensation Scheme. EPF coverage was extended to foreign workers in 1998. Out of 728,000 new registrants with the EPF in 1998, 369,000 were foreign workers (Lee, 2001, p. 31–32). Additionally, since 1998, it is mandatory for foreign workers paid below RM2,000 per month to contribute to SOCSO. Administering social protection to foreign workers requires striking a delicate balance between providing adequate protection while maintaining domestic priorities. The large number of unregistered/illegal foreign workers raises concerns about their social protection. On the other hand, large amounts of survivors' pension payments flowing out of the country also cause leakages in the system.

(b) Contract Labour

The situation of contract workers is pertinent to this survey, for they have been found to be under-provided with social insurance – although they are entitled to the same benefits, since the Constitution does not distinguish between contract and direct workers. Contract workers are favoured for various reasons, according to a wide-ranging survey by Lee and Sivananthiran (Lee and Sivananthiran 1996) of 44 contractors employing a total of 1,275 workers in the construction and plantation sectors. Domestic contract workers are hired to overcome shortages in workers in general, as well as due to the ease of management. Foreign contract workers are often sought after because of the high turnover of domestic workers, lower wages demanded by foreign contract workers and their willingness to work long hours. In the

construction sector, in particular, there is a high prevalence of contract workers (71% of total construction workers in 1990).

A large section of the contract labour category, we may note, comprises foreign workers. Where domestic contract labourers are treated poorly, foreign contract labourers are treated worse. Lee and Sivananthan (Lee and Sivananthan 1996, pp. 80–82) found that domestic contract workers receive less provision of social protection – contributions to SOCSO and EPF, in particular – and are therefore more vulnerable to be uncovered in the event of injury, disease or death. In case of job loss, they will have fewer avenues for assistance, since most contracts are mere verbal agreements.

v. Health and Safety

The rise in claims from SOCSO has raised concern toward the prevention of industrial accidents. Towards this end, health and safety checks by department officials, and courses on work hygiene and safety are conducted. Incidents of industrial accidents have followed a declining trend, though they still fluctuate, from 106,508 (1996) to 85,338 (1998) to 73,400 (2000). The number of death cases settled went from 1,020 (1996) to 1,273 (1998) to 911 (2000). Reported commuting accidents, however, increased from 14,771 (1996) to 16,759 (1998) to 19,276 (2000).

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage

i. Retirement and Insurance Schemes

The civil service pension covers all government employees. Although the amounts for the lowest income groups are sometimes claimed to be inadequate, the government does make periodic adjustments to the amount of the pension. On the other hand, the EPF covers workers in the private sector, mainly the formal sector. However, for a large majority the amount saved is not adequate especially when they make lump sum withdrawals. The self-employed become members only on a voluntary basis; not surprisingly, most have yet to become members. These people would have no personal resources to support themselves unless they save in any of the unit trusts or savings schemes. While SOCSO covers all workers who earn below RM2,000 a month, it is restricted only to employees. Membership in many of the auxiliary schemes is optional and confined to a particular interest. Public health policy has focused on the provision of health facilities and subsidization of medical costs. Withdrawals for medical expenses are permitted from EPF members' Account 3. However, this source will be slim for many members, and in any case, this takes away from old-age savings. All these findings imply that social protection coverage in Malaysia is sporadic and not universal.

ii. Labour Policy

As noted in Section 2.3, training and retraining schemes, especially of lesser skilled labour, are quite limited in their scope. The majority of unemployed workers does not register with the Manpower department, and do not have access to the job brokerage services that the department offers. The Manpower Department's 49 network offices nationwide are inadequate to thoroughly conduct registration of the unemployed and facilitate their re-employment. It is good that the Human Resource Development Council maintained a large amount of financial assistance for training and re-training programmes in 1998, in spite of the economic downfall and the shortfall of levy collection (firms were exempted from paying the levy on a voluntary basis). However, the allocation to retrenched workers was a mere 2.5 million, or 1.8% of total financial assistance.

SMEs, in particular, are quite reluctant to send their workers for training due to a number of reasons. The main obstacle in providing training to the workers is the threat of losing them to their competitors. Firms have no incentive to train their workers if the returns to the investment could not be recouped. In tight labour markets labour turnover is high. If this is the case, firms consider investment in training as wasteful. Moreover, sending workers for training also interrupts their production schedule, which they cannot afford to upset. Finally, there are employers who felt that the courses were too general and not necessary or relevant for their employees (Ragayah 2000).

3.2 Feasibility and Financial Sustainability

i. Civil Service Pension

The civil service pension fund is a non-contributory fund and is fully funded through taxation and other government revenue. Thus, it is crucial for the government to check the impending increases in this type of benefit. Perhaps it is time that the government reverts back to the proposal made in 1987, whereby all new recruits into the civil service would have to contribute to the Employees' Provident Fund instead of being absorbed into the civil service pension scheme.

ii. EPF

Currently, contributions and returns from investments exceed withdrawals and expenditure. However, bearing in mind that the EPF is a savings fund for old age, in reality only 60% of each member's savings are reserved for withdrawal at age 55 years. Thus, savings of lower income groups in particular might not be adequate for old age, since withdrawals for other purposes are available. For example, the withdrawal scheme for purchase of computers has been abused; whereby with the collaboration of computer vendors (who are appointed by the EPF) withdrawals of up to RM5,000 are used for other purposes instead. Such unscrupulous practices need to be checked by the authorities.

There is also concern regarding the dividend paid, which at 6% for year 2000 is the lowest in 27 years, particularly when compared to the others, such as the Pilgrims'

Fund, the Armed Forces Fund and ASN, as shown in Table 18. The declaration of 5% for 2001 raised even more concern regarding the prudence and profitability of the EPF portfolio. As in all financial portfolios, there is a trade-off between volatility and rate of return. The EPF has in its history channelled most of its funds into government bonds, which are theoretically valued for security more than profitability. Through the 1990s, other financial instruments were added to the EPF portfolio, especially shares of publicly listed companies that constitute about 20% of total EPF investment. The declining performance of dividends in the 1990s, in spite of the stock market boom until 1997, has therefore raised serious doubts on the motives behind EPF share acquisition: whether to maximize returns or support government-favoured projects. The extremely low 2000 and 2001 returns are widely perceived to be due to corporate ‘bail-outs’. For future sustainability and recovery of trust, the EPF must demonstrate more transparency and accountability. There is also concern that many employers failed to remit contributions on behalf of thousands of workers. It is claimed that the EPF’s failure to act quickly and decisively has led to huge losses (Rajasekaran 2001).

Table 18: Rate of Dividend Declared by EPF and Other Trust Funds

Year	EPF	Pilgrims’ Fund	Armed Forces	ASN
1991	8.00	8.00	10.00	6.25
1992	8.00	8.00	11.00	8.25
1993	8.00	9.00	12.00	12.50
1994	8.00	9.50	13.00	14.00
1995	7.50	9.50	13.00	13.00
1996	7.70	9.50	13.25	13.75
1997	6.70	9.50	11.50	10.50
1998	6.70	8.00	10.50	6.50
1999	6.84	8.00	12.00	8.25
2000	6.00	5.50	10.00	8.00

Source: Rajasekaran (2001).

iii. SOCSO

Currently it is evident that income exceeds expenditure, being RM1.679 billion compared to RM585,773,504 in 1999 (*SOCSO Annual Report 1999*). However, if present trends were to continue in the future, it may be a burden to the organization. Abuse of medical claims by doctors must be discontinued. Accidents at the workplace must be minimized. Towards this end the government has implemented the Occupational Safety and Health Act, 1994. Regular training courses on occupational safety and prevention of accidents at the workplace are provided by the National Institute of Occupational Safety and Health. Like the EPF, its returns on investment are also relatively low compared to other funds, being 7.7% in 1998 and 6.2% in 1999.

iv. Other Programmes

The government had expected the private sector firms to increase their involvement in poverty eradication by collaborating with various state-based YBK in conducting skill training and providing financial contributions to the poor. However, given the financial problems faced by these corporations since the financial crisis, their ability in contributing to this programme would be severely curtailed, if not ceased altogether. The Retrenched Workers and Unemployed Training Scheme depends on government allocations. The government's RM117 commitment is substantial, though it should be topped up regularly – although the first priority is to ensure that the funds get disbursed and expended.

3.3 Gender Equity

Labour laws in Malaysia do not discriminate according to gender. In practice, however, male-female wage differentials are known to exist. This phenomenon impacts on the earnings of women, which in turn affects their savings and capacity to allocate towards social protection. Inequities also surface in terms of the added burdens faced by women, which may make a case for more 'female-friendly' labour and social policies. Female-headed households number an estimated 630,500, or 16.6% of all households. Besides the requirements of paid work, they usually have to bear responsibilities at home with little help. Another point to note is the apparent gender bias in retrenchment. Although women constitute two-fifths of the industrial workforce, they absorb almost half of all retrenchments. In addition, 64.5% or about three-fifths of women retrenched were working in the manufacturing sector, where weak unionization and labour abundance make them more vulnerable to coercion and manipulation (Jomo and Lee, 2000, p. 233–234).

3.4 Costs of Administration

Government pension has constituted an average of 7–8% of the federal budget. Demographic trends appear to favour the sustenance of pension payments, since the body of tax payers will be growing in the years ahead. The dependency ratio is projected to fall from 59.1% in 2000 to 55.3% in 2005 and 52.2% in 2010.

Labour market policies have fallen under the purview of the Ministry of Human Resources. This ministry has shown its inadequacy in dealing with the adversity of economic downturn, particularly in helping the unemployed find jobs and in retraining retrenched workers. A strong case can be made for the resources of such programmes, in view of their current slim figures: the Manpower Department's operating budget amounted to RM43.1 million in 1999 and RM66.9 million in 2000 (actual expenditure fell just short of it). The development budget leapt from RM216.7 million in 1999 to RM630.6 million in 2000, an indication of the importance attached to labour in the development plan. Increasing the operating funds of this department, however, will be vital to the long-term expansion of its services.

Many labour market schemes involve private sector financial contributions, and some already have an infrastructure in place that needs to be expanded and consolidated. The pooled financing from employers earnings to HRDC programmes helps regulate the inflow of contributions and outflow of payments. Training and skills development schemes cater mostly to the employed. In the context of social protection, the access of retrenched and unemployed persons to such programmes is severely limited. The registration and placement of unemployed persons also only involves a minority of workers who may benefit from this programme. This will involve public expenditure in expanding and improving information and service networks.

3.5 Targeting

Because the programmes are targeted at workers who are found mainly in the urban areas, while the informal sector, which is not covered, is located mainly in the rural areas, there is a tendency for these benefits to be urban biased. Moreover, urban dwellers are also more aware of the programmes and know how to benefit from them.

3.6 Accountability and Transparency

These attributes are typically lacking in public institutions in Malaysia. For example, Rajasekaran (Rajasekaran, 2001) wrote that apart from stating a loss of RM749.68 million, there was no further detail to explain the loss in the EPF. He quoted A. Kadir Jasin who wrote in the *New Straits Times*, 4 March 2001, "EPF must be made accountable for the losses, more so when it was reported that as much as RM1 billion was from a single banking and finance group. They are believed to be RHB, RHB Capital and RHB Sakura. The sole purpose of the RM1 billion irredeemable non-cumulative convertible preference shares was for the rescue of SIME Bank which RHB carried out at the request of Bank Negara Malaysia." Rajasekaran also wrote that EPF was reported to have taken up 78.7 million shares from the Time dotCom initial public offer (IPO) and overnight incurred a whopping loss since only 25% of Time dotCom IPO was subscribed.

4. Development of Innovative Programmes and Alternative Social Protection Schemes

The scope for innovative programmes and alternative social protection schemes appears narrow. Malaysia's development thrust toward the future places responsibility for social protection on family ties and traditional means. Malaysia adopts a residual welfare approach. The role of the family in terms of welfare and social security is greatly emphasized by the state. Hence, there has been a slow progression towards implementing formal comprehensive income maintenance and social protection programmes particularly geared to fulfilling the needs of the lower income groups.

In his paper, *Malaysia: The Way Forward* (1991), the Malaysian Prime Minister Dr. Mahathir Mohamad, said that the Malaysian objective is to be a developed nation in its own mould by 2020. Malaysia should then be a united nation, with a confident

Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of the economy that is competitive, dynamic, robust, and resilient. The roles of the public sector in this society are alluded to in the seventh and eighth challenge stated in this document: the challenge of establishing a fully caring society and a caring culture, a social system in which society will come before self, in which the welfare of the people will revolve not around the state or the individual but around a strong family system; and the challenge of ensuring an economically just society, in which there is a fair and equitable distribution of wealth of the nation, in which there is full partnership in economic progress.

A crucial aspect in designing a social protection system for Malaysia is to ensure that the system is sustainable and financially viable. The main idea here is not to burden the government financially, since many industrialized countries engaged in redistributive programmes/transfer payments, which require public budgets amounting to 40–50% of their GDP (Ragayah, 1997). As a consequence, the public sector in developed countries faced pressures as reflected in the rapidly growing rates of public expenditures, persistent budget deficits and debts, high unemployment, and taxpayer resistance. In order to avoid this quagmire, the approach to social protection is through employment creation and increasing productivity while transfers should only be for those who cannot enter the job market.

While social protection should not burden the state or the individual, some kind of system must be in place to ensure a caring society but the state is not to be fully responsible for the social security provisions. The people must be more conscious of the necessity to care for their own welfare. Towards this end, the following suggestion may be considered.

i. Guaranteed Minimum Social Income Fund

One specific option that policymakers could consider is the establishment of a scheme specifically for the low-income groups, the self-employed, and workers in the informal sector. This scheme could be named the guaranteed minimum social income fund. This scheme should be run by a new institution, thus leaving EPF and SOCSO to cater for workers in the formal sectors only.

This fund should serve as a long-term solution for the establishment of a basic social security and pension for the general population. Anyone could take part in the scheme, including the self-employed and those employed in the informal sector, both in the rural and urban areas, homemakers and students. A minimum age limit of 16 years is recommended for anyone who wishes to join the scheme. Members of this scheme pay a flat-rate basic contribution. As a non-income related scheme the aim is to provide for a basic income guarantee in old age, sickness and unemployment. Hence, this fund should be extended to cover health care, sickness and invalidity. A social security card should be issued to every member, and this card could also be used for access to public health care facilities.

A defined-contribution and a defined-benefit scheme are recommended but changes in the levels of contribution and benefits are possible from time to time. However, based on the experiences of other countries it should be noted that this scheme may take at least 20 years to fully mature from the time of its initiation. In the long run, this scheme should be made mandatory for all adult citizens.

The crucial question that would concern policymakers would be: what could be the sources of funding for the scheme, apart from flat-rate contributions from members? In order to avoid the pitfalls which some developed countries have fallen into, it is suggested that the government should contribute only on behalf of those who really cannot afford to pay, that is the targeted 0.5 % poor in 2005 (Malaysia, 2001a).

This scheme is not supposed to be managed fully by the market or the private sector. Rather it is recommended that a public-private smart partnership should be set up in the provision of social protection for the population. There is a need for a dominant control by the state in this scheme. Thus, the government should have at least 60% control of the scheme.

Additionally funding for the fund could be generated through the 40% joint ownership by the private sector. Perhaps in this instance Bank Rakyat, which is a cooperative bank and has shown remarkable rates of returns for investors in the last few years (despite the economic crisis of 1997–98), could play a prominent role. As it stands, Bank Rakyat does play a major role in providing assistance in the form of saving accounts and in kind to the needy. However, this form of assistance serves only on an ad hoc basis and does not cover a large section of the poor or lower income population. Thus, there is scope for them to strengthen their social commitment by forming a smart-partnership with the government.

ii. Additional Schemes

There is a lot of scope for financial institutions and cooperatives in offering a variety of income maintenance plans in the event of loss of income due to old age or retirement or sickness. For example, cooperatives could also act as fund managers for its members. Padi farmers, for instance, market their produce through the cooperative. They are paid for their products, but a small portion of the income should be retained by the cooperative. Part of this income could be invested in government securities, and another part of it could be used to purchase group insurance for cases of premature death and disability. This plan would be over and above the basic guaranteed social income fund proposed above.

5. Policy Recommendations

i. Safeguard and monitor existing institutions

The EPF should maintain its prime function as an old age-savings institution. Over the years, new functions have been added piecemeal, such as house ownership and computer procurement. These purchases should be left to private bank loans, to

avoid bleeding EPF accounts. Alternatively, as proposed by Lee (2001), withdrawals for housing or computer purchases, or children's education, should be administered as a zero-interest loan, so that the EPF member is obliged to replenish his/her account, but at a much more comfortable rate than any bank can offer. The body also has to restore the eroded public confidence in the safety and profitability of its investments. The EPF ought to display a higher degree of transparency and accountability, to demonstrate that the savings of employees are being managed in a trustworthy manner. Fund management and expenditures of the SOCSO should also be monitored, to ensure it is transparent and efficient.

ii. Extend the scope to the self-employed

Participation of the self-employed in EPF, as repeatedly mentioned above, is optional. Insurance for the self-employed should be encouraged, whether through the EPF or private financial institutions. Opportunities for people in this group of occupations to register and contribute to obtain SOCSO coverage have not been available. Since there is pooling of funds here, enlisting the participation of self-employed workers will be less problematic. SOCSO has conducted studies on the feasibility of extending coverage to such workers, who comprise an estimated 1.5 million. This is a positive step that should be pursued resolutely.

iii. Integrate complementary and compatible social insurance institutions

SOCSO and the Workers' Compensation Fund, for instance, are presently under different governmental jurisdictions. Although agglomerating may enlarge bureaucracies to the point of inefficiency and wasted resources, it may be useful to integrate at least information networks and help centres.

iv. Enlarge and enhance assistance programmes for the unemployed and retrenched

Facilities for unemployed or retrenched job seekers have much potential to be expanded. The Manpower Department presently has only 49 network centres across the nation. By opening more centres and improving services, the number of registrants and beneficiaries can be substantially increased. Importantly, these outlets can play a key role in channeling information and intermediating between workers and employers.

The MTUC's proposal of a National Retrenchment Fund should be seriously taken up. This can fill in major lacunae. Other measures should still be followed, in spite of limitations. As a preventive step, retrenchment should be discouraged as an early means of coping with adversity. Indeed, guidelines provided by the Ministry of Human Resources stipulate that retrenchment should be used as a last resort, and suggests other avenues for coping with market downturns. These guidelines are useful, but there are also risks, for the legal requirement that employers compensate retrenched workers may compel employers to coerce workers to accept other terms of termination or to resign. Monitoring of payment of retrenchment has slackened

when it is most crucial, as in the aftermath of the 1997–98 economic crisis (Jomo and Lee, 2001, p. 229).

v. Resolve the minimum wage issue

In principle, the minimum wage institution concurs with a social welfare sensitive economy and society. An effective and meaningful minimum wage regime will have to weigh in a host of factors, especially cost and adjustment. The level may differ according to each state, to account for regional differences in living expenses. Implementing a minimum wage is always fraught with varying degrees of dissension and dislocation, but the long-term gains may outweigh painful adjustments in the short term. The minimum level, of course, has a direct impact on the labour market and on the amenability of negotiating parties to the new wage regime. In view of Malaysia's aim to advance to a higher technology and higher value-added productive economy, setting a minimum wage is timely. It may also yield efficiency outcomes and encourage skills acquisition, in line with broader policy objectives.

vi. Stimulate active labour market policies

In addition to the above, policies must also be in place to ensure continuous employment in the face of rapid changes in technology. Ragayah and Tham (Ragayah and Tham, 2000) argue that flexibility in production demands equally flexible skills as they may necessitate workers and managers to make decisions that are not the same every day or even every hour. The jobs also may require updating knowledge even in the course of a single year. This need is further accentuated by the technology revolution that reduces the shelf life of technology and increases the need for new skills to match with the new technology that is continuously emerging. Since employment is one source of helping the socially disadvantaged to participate meaningfully in society, retraining becomes essential to enable workers to move into the new economy. Alternatively, retraining will help this group to find continued employment in the old economy. Thus, it is recommended that:

- Firms should not only contribute to the HRDF but should be encouraged, through the provision of tax rebates, to fully utilize the funds that they have contributed for the training of workers so that they are equipped to compete with international firms. For this purpose, firms need to have a planned systematic training schedule that can rotate their workers for training without disrupting the production process;
- Since the digital divide will cause some workers to be redundant, it is important to provide incentives for retraining and the upgrading of skills. Hence, a retraining insurance scheme can be set up to fund the acquisition of new skills for workers that have been laid off due to obsolescence. The new skills will enable them to find new employment. Both employers and workers can make joint contributions to these schemes to reduce the burden on the government;
- For the self-employed poor, the government should contribute the employers' share while the self-employed themselves contribute the workers' share. The fund

can then be used to pay for apprenticeship training and retraining in the event of unemployment;

- At the same time, the government needs to set up training institutions for ‘professionalizing’ some of the manual jobs in the old economy such as converting gardening into landscaping, or cooking into catering as found in developed countries. This is to enable self-employed manual workers to continue to be gainfully employed in the old economy as they do not fit into the new economy;
- The restructuring of production to move up the technology ladder will require the government to phase out the dependency on unskilled foreign workers. Moreover, the shift into the new economy implies that these workers will crowd out jobs or employment opportunities for the domestically unskilled and disadvantaged workers. Hence, it is important to ensure that the shrinking employment opportunities must be preserved for the domestically unskilled and disadvantaged workers in the interest of social cohesion. However, given the current necessity to utilize these foreign workers, it is important to establish clear guidelines on their health and educational needs. The establishment of health and education insurance or similar schemes for financing their needs is recommended. Employers and foreign workers can jointly contribute toward these schemes.

Appendix

Table 1: Malaysia: Percentage Distribution of Inter- and Intra-State Migrants by Migration Direction, 1992–1999

Inter-state migration direction	1992	1993	1995	1996	1997	1998	1999
Rural-rural	15.7	14.8	11.6	9.6	11.8	12.7	12.5
Rural-urban	18.4	20.6	17.1	16.0	16.8	15.1	15.4
Urban-urban	44.2	44.0	47.7	51.3	47.5	44.3	44.3
Urban-rural	21.7	20.6	23.6	23.1	23.9	27.9	27.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Intra-state migration direction	1992	1993	1995	1996	1997	1998	1999
Rural-rural	36.8	32.2	39.0	36.9	34.1	35.5	30.3
Rural-urban	22.7	23.9	19.7	20.8	19.2	20.1	21.4
Urban-urban	25.7	23.3	21.3	21.6	23.4	23.7	26.3
Urban-rural	14.8	20.6	20.0	20.7	23.3	20.7	22.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Malaysia, various years. *Migration Survey*.

Table 2: Malaysia: Inflation, Total and Selected CPI Components, 1980–2001

Year	All groups	Food	Medical care and health services	Gross rent, fuel and power
1980	6.7	3.6	7.5	9.6
1985	0.4	-2.5	2.5	4.2
1990	3.1	4.2	2.6	0.4
1991	4.4	4.8	5.3	3.0
1992	4.7	6.5	3.5	3.6
1993	3.6	2.2	5.1	3.5
1994	3.7	5.3	3.4	2.4
1995	3.4	4.9	3.1	3.4
1996	3.5	5.7	3.7	3.2
1997	2.6	3.8	3.4	3.3
1998	5.2	8.6	5.8	4.3
1999	2.8	4.6	3.1	1.6
2000	1.6	1.9	2.0	1.4
2001*	1.5	0.6	2.8	1.6

* January to August

Source: Malaysia, various years. *Economic Report*.

Table 3: Principal Statistics of Manufacturing Industries by Total Employment Size Group, Malaysia: 1993, 1996 and 1997

Total employment size group (RM)	1993	1996	1997
Less than 50 workers (small industry)			
– No. of establishments	18,931 (81.8)*	15,615 (77.3)	16,938 (73.5)
– Value of gross output (RM'000)	13,271,813 (8.3)	19,118,002 (6.9)	18,757,780 (6.3)
– Cost of input (RM'000)	5,762,504 (5.2)	13,867,145 (6.8)	13,700,386 (6.3)
– Value added (VA) (RM'000)	7,509,310 (15.6)	2,946,576 (4.9)	5,057,394 (6.4)
– Total employment (L)	185,517 (15.0)	175,474 (12.0)	151,619 (10.7)
– Salaries and wages (RM'000)	1,202,786 (15.0)	1,788,267 (9.2)	1,678,795 (8.2)
– Value of fixed assets (K) (RM'000)	4,233,795 (6.3)	10,194,430 (8.7)	9,687,911 (7.6)
– K/L (RM'000)	22.822	58.097	63.896
– VA/L (RM'000)	40.478	16.792	33.356
50–150 workers (medium industry)			
– No. of establishments	2,623 (11.3)	2,656 (13.1)	3,495 (15.2)
– Value of gross output (RM'000)	29,174,455 (18.2)	46,786,445 (17.0)	47,512,411 (16.0)
– Cost of input (RM'000)	19,709,614 (17.6)	36,625,101 (18.0)	37,087,444 (17.0)
– Value added (RM'000)	9,464,841 (19.6)	7,363,580 (12.1)	10,424,966 (13.2)
– Total employment	228,425 (18.5)	229,603 (15.7)	198,717 (14.1)
– Salaries and wages (RM'000)	1,645,515 (20.4)	2,998,673 (15.5)	3,210,980 (15.7)
– Value of fixed assets (RM'000)	10,624,242 (15.7)	14,499,229 (12.4)	16,341,487 (12.8)
– K/L (RM'000)	46.510	63.149	82.235
– VA/L (RM'000)	41.435	32.071	52.461
More than 150 workers (large industry)			
– No. of establishments	1,602 (6.9)	1,933 (9.6)	2,596 (11.3)
– Value of gross output (RM'000)	117,459,263 (73.5)	210,143,095 (76.1)	230,860,086 (77.7)
– Cost of input (RM'000)	86,231,943 (77.2)	152,754,309 (75.2)	167,169,447 (76.7)
– Value added (RM'000)	31,227,321 (64.8)	50,475,045 (83.0)	63,690,640 (80.4)
– Total employment	820,486 (66.5)	1,056,744 (72.3)	1,061,111 (75.2)
– Salaries and wages (RM'000)	5,195,157 (64.6)	14,591,957 (75.3)	15,610,474 (76.1)
– Value of fixed assets (RM'000)	52,654,967 (78.0)	92,406,957 (78.9)	101,825,204 (79.6)
– K/L (RM'000)	64.175	87.445	95.961
– VA/L (RM'000)	38.060	47.765	60.023
Overall			
– No. of establishments	23,156 (100.0)	20,204 (100.0)	23,029 (100.0)
– Value of gross output (RM'000)	159,905,532 (100.0)	276,047,542 (100.0)	297,130,277 (100.0)
– Cost of input (RM'000)	111,704,060 (100.0)	203,246,555 (100.0)	217,957,277 (100.0)
– Value added (RM'000)	48,201,471 (100.0)	60,785,201 (100.0)	79,173,000 (100.0)
– Total employment	1,234,428 (100.0)	1,461,821 (100.0)	1,411,447 (100.0)
– Salaries and wages (RM'000)	8,043,458 (100.0)	19,378,897 (100.0)	20,500,249 (100.0)
– Value of fixed assets (RM'000)	67,513,003 (100.0)	117,100,616 (100.0)	127,854,602 (100.0)
– K/L (RM'000)	54.692	80.106	90.584
– VA/L (RM'000)	39.048	41.582	56.093

* Figures in brackets are shares of the total.

Source: Malaysia, 1994, 1997, 1998.

Table 5: Revealed Comparative Advantage Index for ASEAN-5 1995-98

	1995	1996	1997	1998
Malaysia				
Natural resource intensive	1.08	1.13	1.02	0.89
Unskilled labour intensive	0.81	0.78	0.71	0.73
Technology intensive	1.47	1.39	1.37	1.43
Human capital intensive	0.80	0.78	0.64	0.62
Indonesia				
Natural resource intensive	2.80	2.68	2.24	1.82
Unskilled labour intensive	2.14	1.98	1.29	1.34
Technology intensive	0.31	0.28	0.25	0.29
Human capital intensive	0.50	0.47	0.41	0.58
Thailand				
Natural resource intensive	0.97	1.30	0.85	0.79
Unskilled labour intensive	1.61	1.65	1.42	1.45
Technology intensive	1.05	1.07	1.00	1.08
Human capital intensive	0.58	0.60	0.63	0.69
Philippines				
Natural resource intensive	0.65	0.68	0.51	0.32
Unskilled labour intensive	2.07	1.75	1.37	1.16
Technology intensive	1.96	1.65	1.72	1.95
Human capital intensive	0.27	0.28	0.22	0.19
Singapore				
Natural resource intensive	0.45	0.45	0.45	0.35
Unskilled labour intensive	0.43	0.41	0.36	0.38
Technology intensive	2.04	1.93	1.83	1.90
Human capital intensive	0.58	0.60	0.52	0.48

Source: Tham, 2001.

Acronyms

AgCensus	–	Agriculture Census
AIM	–	Amanah Ikhtiar Malaysia (NGO)
ASB	–	Bumiputera Unit Trust
ASN	–	National Unit Trust
CPI	–	Consumer Price Index
DOS	–	Department of Statistics
GDP	–	Gross Domestic Product
GNP	–	Gross National Product
ELS	–	Employers' Liability Scheme
EPF	–	Employees Provident Fund
FDI	–	Foreign Direct Investment
HIS	–	Household Income Surveys
HRDC	–	Human Resource Development Council
HRDF	–	Human Resource Development Fund

LFPR	–	Labour Force Participation Rate
MEF	–	Malaysian Employers' Federation
MTUC	–	Malaysian Trades Union Congress
NDP	–	National Development Policy
NEP	–	New Economic Policy
NVP	–	National Vision Policy
PSDC	–	Penang Skills Development Centre
RISDA	–	Rubber Industry Smallholders' Development Authority
SMIs	–	Small and Medium Industries
SMIDEC	–	Small and Medium Industries Development Corporation
SOCISO	–	Social Security Organization
YBK	–	Yayasan Basmi Kemiskinan (NGO)

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Social Protection in the Philippines

Eduardo T. Gonzalez and Rosario Gregorio Manasan

Abstract

The Philippines is a fairly governed developing country with nominally democratic political institutions. There is broad consensus on the desirability of a society oriented to human development and welfare, but the country is confronted with resurgent poverty, a budget deficit, and the problem of restoring investor confidence in the wake of persistent concerns about the escalation of conflict in Southern Philippines.

The Philippine economy has a significant boom-and-bust cycle, as a result of which it has lagged behind many of its neighbors with its GDP growing only by 3.2% yearly on average during the last decade. In the context of liberalizing reforms, modest economic upsurges were largely driven by investments, exports and remittances of overseas Filipino workers. Poverty incidence has declined modestly to 32% in 1997, but following the Asian financial crisis in 1997/98, the proportion of poor families crept up to 34.2% in 2000.

Social protection in the Philippines is well defined in the formal sector, which is led by manufacturing and services firms and public agencies. Both private sector employees and government workers are covered by contributory social insurance schemes covering industrial accident, health, old age, and death, although the support value for all is less than desired. In the informal sector, there is no coverage, except for the self-employed, who contribute on a voluntary basis. The government occasionally launches programs that have social protection elements, such as rice price subsidy, labor-intensive public work schemes, and integrated community-level social assistance. There are also a number of microfinancing schemes, as well as reskilling programs for those adversely affected by the Asian crisis and displaced by 'flexibilization' processes.

However, most of these programs come far and few between, and although many are targeted at the poor, they are not efficiently run and the benefits are prone to middle class capture. Formal social insurance is increasingly becoming unsustainable, in part because of badly managed investments, corruption, and payroll tax collection problems. Studies also suggest an inequitable setup, with poorer members subsidizing the better off. The difficulties facing social protection are compounded by weaknesses in the bargaining power of workers. Organized labor is now only 10% of the work force and labor unions have diminishing leverage in the workplace.

Reforms will have to be put in place. In formal social insurance, some immediate steps should include changes in the contribution and benefit structure, automatic indexation of benefits, and wider coverage. The social insurance system will also have to be run more efficiently, in a sustainable manner. In the informal sector, the

government will have to cast a wider social safety net, by protecting basic social services from budget cuts, more focused targeting of social assistance and microfinancing programs, and better governance structures in order to avoid the wastage of resources intended for poor and disadvantaged workers.

* The exchange rate of the Philippine peso against the US dollar at the time of writing was US\$1=PhP50.

1. Institutional Framework

1.1 General Political, Social, and Economic Framework

Political Structure

The Philippines has a presidential system of government, with the 1987 constitution limiting presidents to a single six-year term of office. The legislative branch of government is modeled on the U.S. system and is composed of the Senate, with 24 seats, and the House of Representatives, with 208 directly elected seats and a few party list representatives. Joseph Estrada's presidential term, which ends in June 2004, is now being completed by the former Vice-President, Gloria Macapagal-Arroyo.

At the moment, the Philippines is faced with problems of reducing the budget deficit and of restoring domestic and international business confidence in the face of concerns on social order, global anti-terrorism and recession of the U.S. economy. The culture is open, with freedom of expression and broad social consensus on the desirability of an outward-oriented society. Despite the persistent potential for escalation of conflict in Southern Mindanao, peace and order hold sway.

The colonial era bequeathed concentration of political and economic power in the hands of a small number of families, culminating in the 21-year rule of Ferdinand Marcos (1965–86), which was characterized by economic mismanagement, corruption and martial law. A democratic system was re-established under Corazon Aquino (1986–92), maintained under Fidel Ramos (1992–98) and consolidated with the election of Joseph Estrada in May 1998. His removal by a civilian coup backed by the military in January 2001, which was later judged to be in accordance with the constitution, ironically seems to have strengthened the prospects for the continuation of responsible democracy in the Philippines (*The Economist Country Briefings*, 2002).

Political parties in the Philippines are based on personalities rather than ideologies. Most of those represented in Congress come from the economic elite, and often switch parties in exchange for political favors from the ruling administration. There are thus continual shifts in allegiance. The new president's party is Lakas ng Edsa (National Union of Christian Democrats/Lakas), which was formed in 1992 to support the presidential candidacy of Fidel Ramos. In February 2001, Lakas merged with several small parties to form the People's Power Coalition and now controls the majority in the two chambers. The three parties that backed Joseph Estrada in 1998 and formed the pro-government coalition, Laban ng Masang Pilipino (LAMP) re-

sumed their separate identities in the wake of his removal. Party lists, meanwhile, continue to be one of the minor political instruments for social mobility.

Economic Structure

The Philippine economy in the last 25 years has been characterized as one following a boom-bust cycle (Fabella, 1994). The Philippines has had three crises in the period 1975–2000. The worst occurred in 1984–85 when GDP contracted by 7.3% in two consecutive years. Then, two milder ones took place in 1991 and 1998, with GDP declining by 0.6% in both years. Because of the large fluctuations in its economic development, the Philippines economy has lagged behind many of its neighbors with its GDP growing only by 3.2% yearly on average during the period.

However, in the five years immediately prior to the East Asian crisis in 1997, the Philippines enjoyed what appears as strong macroeconomic fundamentals. This came about largely because of the restoration of democracy during the Aquino years, and the stabilization of the political situation during the Ramos administration. Another contributing factor was the continuous implementation of structural economic reforms aimed at reforming the tax system, liberalizing trade, privatizing state-owned enterprises, deregulating telecommunications and banking, and rehabilitation of ailing government financial institutions. Thus, the economy posted modest rates of economic growth that was largely driven by growth in investments and exports (see Table 1, Appendix). Moreover, because of the persistent pursuit of trade liberalization from 1980 onwards, manufactured goods accounted for an increasing proportion of exports, thereby reducing the country's dependence on exports of primary commodities that were often subject to price volatility.

However, despite the many initiatives mentioned above, liberalization in non-tradables lagged behind. In addition, the terms of trade shifted against industry and in favor of services. Consequently, a corresponding shift in the composition of output by sector became evident. Thus, the share of industry in total output contracted, despite the impressive performance of manufactured exports, from 35% in 1990 to 32% in 2000, while that of services expanded from 43% to 52%.

As emphasized in the *Economist Country Briefings*, foreign-debt ratios, which had improved markedly in recent years, deteriorated following the peso depreciation in 1997. Improvements had been made in government finances through privatization and tax reform, but were undermined by the economic downturn in 1998 and poor tax administration since, which resulted in a fall in the taxes taken relative to GDP. The new government's aim is to remedy the budget imbalance and restore domestic and international business confidence, which had been slipping since mid-1999 and collapsed in late 2000.

The relatively stable growth environment in the first half of the 1990s translated into greater employment opportunities and the unemployment rate dipped from 9.0% in 1991 to 7.4% in 1996 and 11.2% in 2000. Labor shifted away from agriculture to the more labor-intensive sectors of services and construction in line with the overall

reallocation of resources towards the non-tradable sectors (World Bank, 2000). Thus, the share of services in total employment expanded from 39.6% in 1990 to 46.7% in 2000, while agriculture's share contracted from 44.9% to 37.1% (see Table 2, Appendix). Meanwhile, the share of the industrial sector has stagnated around 15% and in the same manner that of manufacturing remained almost constant around 10%. The increase in the share of the services sector is an indication of the growth of the informal sector, which has had to absorb 'an expanding labor force that is unable to find adequate employment in the agriculture and industry sectors' (HCIEE, 2001).

Social and Demographic Structure

The Philippines exhibited improvements in key human development indicators between 1986–96, particularly those related to poverty, education and health. In particular, poverty incidence declined from 44.2% in 1985 to 39.9% in 1991 and 32.1% in 1997, although poverty incidence in the country remains the highest in the ASEAN 5 (see Table 3, Appendix).¹ However, following the Asian financial crisis in 1997/98, the proportion of poor families crept up to 34.2% in 2000.

Meanwhile, the basic literacy rate rose from 89% in 1989 to 94% in 1994. Also, clear gains in school participation have been made – 97 % at the elementary level and 72% at the secondary level in school year 2000–01. However, the progress when measured in terms of the completion rate is more limited, as can be seen in the less than modest improvement in the completion rate, 68% and 71% in school year 2000–2001 (see Table 4, Appendix).

With respect to improvements in health status, life expectancy at birth rose from 65 years in 1990 to 69 years in 1999. This came about as the infant mortality rate, the under-5 mortality rate and the maternal mortality rate all exhibited a definite downward trend in 1990–2000.²

The reason why real per capita GDP has been sluggish is not only its unstable growth path but also the rapid population growth. A country of 76.5 million people in 2000, the Philippines stands out as having one of the highest population growth rates (2.36% yearly) in Asia at present. Meeting the demand for basic public goods generated by its young population (49% of whom are aged 0–19) presents a serious challenge to the government and clearly exerts pressure on the already strained government resources. Although social services continue to account for the biggest share of the budget of the national government with the exception of debt service, its proportion continues to decline (see Table 5, Appendix). The current trend of public finances appears unsustainable: either public debt will rise from an already high level, and/or

1 Based on the international poverty line of US\$1 per person per day, the poverty incidence in the Philippines was 26 compared to Indonesia's 11, Malaysia's 4 and Thailand's less than 1 (Reyes *et al.*, 1999).

2 In particular, the infant mortality rate improved from 56.7‰ live births in 1990 to 48.9‰ in 1995 and 35‰ in 1998. At the same time, the under-5 mortality rate slid from 79.6‰ live births in 1990 to 66.8‰ in 1995 and 55‰ in 1998. On the other hand, the maternal mortality rate declined from 209 per 100,000 live births in 1990 to 180 in 1995 and 172 in 1998.

resources will remain inadequate for social expenditure (Philippine Country Assistance Strategy, World Bank Group, 1999). Corruption is also linked to lower spending on health and education, which in turn narrows opportunities for poor people to invest in their human capital.

The Philippines did not manage to keep the number of poor people from growing considerably. While its economy was not badly affected by the crisis, the number of poor Filipinos rose greatly. The Philippines joined the likes of Vietnam, Laos and Cambodia in the high-poverty column. The vulnerability of the non-poor has increased. About 40% of the population was vulnerable in 1997, compared with 25% who were observed to be poor (Chaudhuri and Datt, 2001). Social safety nets are in place to cushion the impact of shocks, and the presence of some social risk management instruments may be contributing a lot to mitigate the worst features of poverty.

1.2 Availability and Quality of Data

Most of the data for this article was gathered from secondary sources – both local and foreign studies and researches – and official agency documents. Local researches provided a national situationer. Foreign studies, such as from the International Labor Organization (ILO), International Social Security Association (ISSA), World Bank (WB), and Asian Development Bank (ADB), gave global perspectives on social protection systems. Most data are up to date, to 2001 at the latest, and are of good quality, having come from official statistical sources.

Insufficient government resources preclude gathering of data that track the informal sector. Coverage of ‘flexibilized’ workers is often scanty, which adds to the difficulty of creating a good social protection system for them. The census is a good instrument to reach out to ‘undocumented’ workers, but it is undertaken only every ten years. Yearly spot surveys, such as the Annual Poverty Indicators Survey (APIS), may shed some light.

1.3 Existing Institutional Framework

The right to organize and the right to strike are legally protected under the country’s labor code and various policy issuances. In the public sector, employee organizations are supervised by the Civil Service Commission (CSC), with restrictions on strikes. The interests of the public service are often invoked to discourage protest actions by government employees.

Industrial Relations

Organized labor has little power in the Philippines. Only around one in five workers was a member of a trade union in the late 1990s, although the rate was significantly higher in multinational firms, where around one in three was unionized. This reflects the weak bargaining position of workers in a labor-surplus economy (*The Economist Country Briefings*, 2002).

In 1997, the total number of labor organizations was 8,822 and they cover 3,634,038 workers. The number of collective bargaining agreements (CBAs) in 1997 totaled 2,987 covering 525,007 workers, which represent only 1.7% of the labor force and 1.9% of the total employed. Most of them are in the manufacturing and services sector. Welfare benefits – monetary and non-monetary benefits – enjoyed by the workers were covered by 309 CBAs filed at the Department of Labor and Employment (DOLE) Regional Offices in 1999 (see Table 6, Appendix). Trade unions cover only 13% of the employed labor force and 12% of the total labor force. This means that collective bargaining as an industrial relations process, although not insignificant, is not dominant even in the formal sector of the economy. What prevails is the paternalistic unilateral decision-making process practiced in most micro-, small- and medium-scale enterprises. This also suggests that the bulk of the Philippine labor force is still outside the social security system.

Non-governmental Organizations

Non-profit and non-governmental organizations active in the field of human development and welfare are a very recent phenomenon in East Asia, where in the past they have been discouraged by authoritarian regimes (Yamamoto, 1999). The one exception is the Philippines where they have a longer history due to the American legacy and the Catholic Church. However, technically, civil society organizations (CSOs) have minimal influence on issues on social protection.

Community development in the Philippines is not yet a flourishing part of social policy, and innovations such as community health financing are not seriously considered. Moreover, all NGOs (non-governmental organizations) remain heavily dependent on external sources for funds, notably official overseas aid organizations, U.S. philanthropic funds and Japanese corporate funds (Gough, 2000).

Employers

The influence and power of the local industry, multinational companies and employers in general have been somewhat weakened by the Asian crisis. But numbers are still important: for instance, the ten largest families in the Philippines control half of the corporate sector (in terms of market capitalization). These families have a sorry effect on the economic policy of the government. The Ayalas, for example, control 17.1% of the total market capitalization (Claessens, Djankov and Lang, 1999).

Such wealth concentration, and the interlocking links between owners and government officials, casts doubt on the independence of legal institutions in Southeast Asia, including the Philippines. In a situation of 'state capture', legal institutions are subverted and less likely to evolve in a manner that promotes transparent and market-based activities. Thailand, Indonesia and the Philippines seem to have the lowest level of legal institutional growth because of heavy ownership concentration in the corporate sector.

Inter-institutional Cooperation

A tripartite system among government, trade unions, and employers, exists through regional wages and productivity boards (which are supervised by the National Wage and Productivity Commission). Board discussions center mostly on minimum wage adjustments in relation to the consumer price index and cost of living, and gain-sharing schemes. Less discussed, although boards have the power to initiate action, are the needs of workers and their families, the need to induce industries to invest in the countryside and the equitable distribution of income and wealth along the imperatives of economic and social development. A recent action of the tripartite board in Metro Manila is to ratify a PhP.30 emergency cost-of-living allowance.

1.4 Government Support

All presidents, Gloria Macapagal-Arroyo not excepted, have paid obeisance to the protection of the rights of workers, tripartism and social dialogue. In a May Day speech before workers, for example, Arroyo said she shared the sentiments of labor for an adequate social protection mechanism, particularly those affected by the changes brought about by the challenges and demands of globalization (Macapagal-Arroyo, 2001). Her action to scrap the guidelines on labor-only subcontracting has won her praises from most labor groups.

Stronger measures on social protection, such as unemployment insurance and universal health care coverage, have either been waylaid or deferred. Newer moves, such as the implementation of the 20/20 Initiative, have yet to take off.

Inefficiencies in the management of the current social insurance system are widespread. There is a strong clamor for merging the two financing institutions (the Social Security System for private sector workers and the Government Service Insurance System for public sector employees) in order to achieve economies of scale and to eliminate inefficiencies. But ‘turfing’ has undermined such demands. Reforms are also hard to come by, as proven by the recent ouster of the Social Security System’s (SSS) chief executive officer, a known reform advocate, ironically at the instance of the agency’s union. Top managers of both SSS and the Government Service Insurance System (GSIS) have also been embroiled in a recent controversy involving reportedly exorbitant salaries and perks.

On a more general plane, the government’s performance has been constrained by widely acknowledged weaknesses in implementation capacity and governance. To be sure, there are landmark laws to control the system and set standards: the revised Labor Code, the Wage Rationalization Act, the Social Security Law and the new GSIS Law, the new Medicare Law. But improvements are needed in the capacity for policy formulation and implementation; program management; procurement; controlling corruption, transparency and accountability; and congressional and judicial processes. Lobbying is a fact of life. Congressional measures are natural targets, but so are executive actions. This can work both ways. NGOs can lobby for progressive

measures, although those with deeper pockets – big business – might call the shots. Sometimes, lobbying plus public pressure can bring about good policies.

Years of internal warfare have undermined both human development and social protection particularly in Mindanao. Statistics on basic health and education show utter neglect of basic social services provision especially for particular ethnic and religious groups, like the Muslims. Such deprivation has aggravated the existing conflict in the area.

1.5 Traditional and Contemporary Perception of the Social Protection System

Throughout East Asia, the extended family continues its role as a provider, saver and redistributor, despite rapid economic development and urbanization. This should permit more families to mitigate risk by ‘self-insuring’: saving in good times and spending in bad times. The level of savings is extremely high in East Asia, the Philippines excepted (WDR, 2000).

Nonetheless, calculations of private transfers show high levels in the Philippines, Indonesia and Malaysia, adding 9% to 20% to the average incomes of recipient households. In the 1980s, the majority of people aged over 60 were receiving income from family members and an even higher proportion lived with children or family – between 75% and over 90% in the Philippines and Thailand (Gough, 2000).

It is no surprise that the family support element has found its way also within the structures of social security. As in most social security schemes in Asia, eligibility, and amount of benefits in the Philippines are based on the family situation of the beneficiary. Heads of families, with dependents, qualify more easily or receive higher benefits (Langendonk, 2000).

The value of family or group orientation in the Philippines greatly helps Filipinos in coping with human poverty and insecurity. Social security for an individual often includes the income and/or assets of other members of his family, from whom he could claim financial support.

Too much reliance on the protective shield of the family has a tradeoff, however. Filipino rank-and-file, in contrast to their Western counterparts, are less autonomous, more dependent on superiors for guidance, and less accepting of risk and responsibility (Mendoza, 2001). Acceptance of the authority of the superior, and hierarchical authority structures, and an inability of the inferior to decide, precludes job autonomy. Filipinos also ranked high in a related value: uncertainty avoidance, which is related to the need for employment stability; stress in the workplace; and willingness to follow rules (Acuña and Rodriguez, 1995).

The state, on the other hand, is widely perceived as the key provider of social assistance. It provides social assistance as a safety net, assuring some kind of social protection for individuals and families with few sources of income. Though social safety nets are in place to cushion the impact of shocks, they are still short of social risk

management instruments to mitigate the worst features of poverty. Ironically, the Philippine government is organizationally weak to enforce its own formal structures on the routines of family and community life (Mendoza, 2001).

The government is judged by the people in its role as provider. Overall, based on the Social Weather Survey, July 2001, the public is satisfied – 46% satisfied, and 29% dissatisfied – with the current government’s performance. That is also the reason in part why entitlements are welcome but not obligations, such as taxes. Such imbalance is somewhat mitigated by other mediating instruments, such as user fees, which have been introduced in some sectors, such as health care, water supply and sanitation. In fact, to sustain devolved hospitals and clinics, a number of local governments have adopted user charges.

2. Review of the Existing System

2.1 Social protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

In general, the Philippine economy is a dualistic economy, that is, it is divided into a modern but small sector and a backward but large sector (Ofreneo, 1991). This characterization directly leads to segmentation of the formal labor force. The industrial sector has three major sub-sectors: import-substituting, export-oriented, and numerous small domestic fabricators/assemblers and cottage or home-based producers (Ofreneo and Barriatos, 1991). The agricultural sector has three segments: the export-oriented crop and plantation sub-sector, commercialized home-oriented agricultural sub-sector, and subsistence farming. The services sector is diversified from modern and large service establishments (government service, educational institutions, banks, hotels, department stores), which cater mainly to the needs of the elite and the middle class; a constellation of medium- and small-scale establishments (retail stores, market stalls, barber shops, and so on); and a galaxy of micro enterprises, which are generally unregistered and are engaged in the buy-and-sell business and in the delivery of all kinds of personalized and customized services (Ofreneo and Barriatos, 1991).

The private sector (mostly family-owned) is the biggest employer in the Philippines. It takes on about 37% of the total employed. The government sector, on the other hand, employs only 8% of the total employed. In 2000, there are 14.33 million wage and salaried workers and they account for 50% of the total employed.

The general working environment is legally protected, through a revised labor code. There are also protective laws, which establish labor standards and mechanisms for the organized sector. Despite remarkably extensive labor legislation covering minimum wages, hours of work, paid leave, employment security, protection against dismissal, redundancy pay and occupational health and safety (Deery and Mitchell, 1993 and Rigg, 1997), protection in practice is poor. This is due to weak government agencies, bribery of officials and weak trade unions (Gough, 2000).

In recent years, as a result of globalization and liberalization, local firms have had to cope with a less sheltered environment. They are no longer protected against foreign products by high import duties. Domestic companies are experiencing downturns in the short run, their products are no longer competitive in a largely middle-class market, with severe consequences for labor and social protection. Corporate reorganization, organizational rationalization, reengineering and downsizing facilitate the casualization of the workforce to lower wage bills (Maragtas *et al.*, 1999a). To avoid high overhead costs, manufacturing firms keep a leaner number of workers – a key component of a ‘labor flexibilization’ strategy – and trade off overtime pay for social compensation (Aganon, 1993).

Relatively slow growth in the industry sector has been symptomatic of economic performance in recent years. Unlike some of its neighbors, the Philippines has lagged behind in shifting its output and employment structure away from agriculture to industry and to services. Industry’s share in GDP contracted from more than 35% two decades ago to nearly 32% in 2000. Manufacturing, which dominates the sector at over 70% of industrial value added, was at the forefront of the expansion, spurred by a strong performance in electronics arising from buoyant U.S. demand for semiconductors and other high-technology products.

The overall productivity and competitiveness of the Philippines remain a challenge. Estimates of total factor productivity (TFP)³ point to low productivity. The country experienced slight increases in productivity during the periods 1992 and 1995, but these gains were completely eroded in 1996. TFP recovered in 1997 and showed an increasing trend since then, but the growth rate remained negative. The country’s capital productivity (measured by ICOR)⁴ was stagnant during the same period. The fluctuation in the TFP was attributed to the roller-coaster growth of labor productivity. The country’s labor productivity dived to a negative in 1991, rose to 2.05% in 1995 and seesawed since then until 1999 (Mendoza, 2001).

2.1.2 Social Insurance and Savings Schemes

Social security in the Philippines covers the formal sector labor only, and is built on a narrow membership base. In the Philippines, this is being taken care of separately by the SSS and the GSIS for private and public sector employees respectively. This partition could also be considered as its weakness – two administrative centers with separate budgets, bipolar centers of accountability, possibility of duplications, and the like (Maragtas, 2001).

About 25 million workers (which is 65% of the labor force) from both the private and the public sectors receive social security benefits in the form of health care, retire-

3 TFP measures the growth arising from technical progress and technical efficiency. It is measured by the residual between the growth of the economy and the weighted sum of the growth of the primary factor inputs – labor and capital (Medium-Term National Action Agenda for Productivity, 2000–2004).

4 ICOR means inverse of incremental-capital output ratio ($\Delta\text{GDP}/I$) (Philippine Council for Productivity 2000 Annual Report).

ment and social disability pensions and other minor assistance in the form of maternity and funeral benefits. This fact simply means that around 35% or 11 million of the workforce are without social protection as mandated by the Philippine Constitution (Maragtas *et al.*, 1999a). Subscription to social security by these workers is through an employee contribution to social insurance.

The social security apparatus in the country has all the characteristics described by Schulz (1993):

1. Participation is compulsory for all modern sector workers and public employees.
2. Benefit schemes are financed by contributory payroll taxes levied on both employers and workers. Employers finance employment injury insurance wholly. Contributions are accumulated in special funds out of which benefits are paid. Any excess funds are invested to earn further income.
3. Benefits (and contribution rates as well) are directly related to the level of earnings and/or length of employment.
4. A person's right to benefits is secured by his contribution record without any test of need or means.
5. Retirement benefits are designed to meet 'minimum income needs' during the retirement period and are paid out regularly (e.g. monthly) till death. The 'right to retire' involves providing compensation based upon years of service rather than upon need *per se*. The financial obligations are based on actuarial calculations that allow for the pooling and sharing of risk.

The SSS presently administers two programs:

Social security (SS) includes maternity, disability, retirement, death and funeral services. It provides replacement income for workers in times of death, disability, sickness, maternity and old age.

Employee's compensation (EC) includes the following industrial injury-related services: income cash benefit for temporary total disability or sickness and permanent total disability, medical services appliances and supplies provided to the affected member beginning on the first day of injury or sickness, and rehabilitation services consisting of medical, surgical and hospital treatment. The EC program, started in 1975, provides double compensation to the worker when the illness, death or accident is work-related. EC benefits are granted only to members with employers other than themselves.

The sickness benefit is a daily cash allowance paid for the number of days a member is unable to work due to sickness or injury. The amount of an employee's sickness benefit is computed as the daily sickness allowance times the approved number of days. Effective from 1997, the daily sickness allowance is 90% of the average daily salary credit. A member can be granted sickness benefit for a maximum of 120 days in one calendar year.

The maternity benefit is a daily cash allowance granted to a female member who is unable to work due to childbirth or miscarriage. The maternity allowance is equiva-

lent to 100 % of the member's average daily salary credit multiplied by 60 days for normal delivery or miscarriage, 78 days for caesarian cases. All female members with qualifying contributions, including self-employed and voluntary members, are now entitled to maternity benefits that cover only the first four complete deliveries including miscarriages on or after May 1997. The disability benefit is a cash benefit paid to a member who becomes permanently disabled, either partially or totally (Maragtas *et al.*, 1999b).

The retirement benefit is a cash benefit paid to members who can no longer work due to old age. Any Filipino who is 60 years old and unemployed and has made at least 120 monthly contributions prior to the semester of retirement; and any person who is 65 years old, whether employed or not (if employed, he should have made 120 monthly contributions prior to the semester of retirement, whether employed or not) is qualified for this long-term insurance benefit. There are two types of retirement benefit. First, the *monthly pension*, which is a lifetime cash benefit paid to a retiree who has made at least 120 monthly contributions to the SSS prior to the semester of retirement; and the other, the *lump sum amount*, is granted to a retiree who has not paid the required 120 monthly contributions (Maragtas *et al.*, 1999b).

The principal benefit package of the GSIS consists of compulsory and optional life insurance, retirement, separation and injury-related compensation benefits. Active GSIS members are entitled to the following loan privileges: salary, emergency and housing loans. In addition to government workers, the GSIS services the members' dependents and beneficiaries, the retirees and pensioners, and the survivors of the deceased members or pensioners. The GSIS issues policies for Compulsory Life Insurance (Regular), and Optional Life Insurance. Member privileges also include service loans, salary and emergency loans, *Bahay Ko* housing loan, socialized/special housing, and pension loans.

Another major program, which both the SSS and the GSIS had, is the medical care program. The National Health Insurance Act of 1995 transferred the administration of the Medicare program to the Philippine Health Insurance Corporation (Phil-Health) for an integrated and comprehensive approach to health development.

Also engaged in other forms of social security are the Retirement and Separation Benefits System (RSBS) for military personnel; the Overseas Workers Welfare Administration (OWWA), which administers a welfare fund for overseas Filipino workers; and the Home Development Mutual Fund (HDMF) for social housing.

Loans are non-insurance social benefits that SSS provides to member workers at reduced interest rates. Loan categories include salary, educational, calamity, emergency, and housing. Provident funds are virtually non-existent, except for those provided in some government financing institutions like the Bangko Sentral ng Pilipinas (BSP).

Employers, whether private or public, pay half of the social insurance premiums, the other half being drawn from the employees in the form of employee contributions. The individual partly bears the risks of the existing schemes. In Medicare, for exam-

ple, support value has hovered between 40% and 60% in recent years, forcing workers to rely in part on family resources.

Companies engaged in community and social services, and manufacturing firms (to a lesser extent), augment the salaries of workers by encouraging overtime work. Overtime pay, however, is not really a part of a social compensation: workers earn it by extending their working hours. The idea is to rechannel surpluses to direct productive work. Community and social services firms are plausibly firms not dedicated to earning profit. Altruistic considerations make it possible for these firms to motivate workers to do extra hours of working time, in exchange for which they get overtime pay.

Variations in employment benefits across regions may reflect differing employment practices, or responses to varying workers' needs, and this could be a minefield for further investigation. It would be interesting to find out why firms in Ilocos, Cagayan Valley, and Northern Mindanao register above average shares of employment benefits. Metro Manila establishments, as expected, do provide one of the highest proportions of employment benefits. Yet, for every peso earned by Metro Manila workers, a third of it is accounted for by overtime pay. This could be indicative of the high costs of living, as workers have to earn more to override budget constraints and pay for costly basic needs.

Studies on cross-subsidization in Medicare also yield wide inequities. Generally, poor workers subsidize well-off employees (who have a higher incidence of catastrophic illnesses requiring more expensive treatments), and the workers in lagging regions (such as Eastern Visayas) subsidize Metro Manila employees (Urquico, 1994).

To date, the Philippines has not been in a position to put in place a comprehensive formal social safety net. While some elements of such a safety net do exist, such as severance pay and pensions, coverage is incomplete and often difficult to enforce. Other key elements, such as unemployment benefits, are completely absent. The focus of the government remains on economic growth supplemented by targeted poverty alleviation measures.

2.1.3 Social Assistance and Services: Benefits and Transfers

For children and youth, the Department of Social Welfare and Development (DSWD) has enacted a total of eight national policies, inclusive of the Early Childhood Care and Development (ECCD). ECCD is designed to enhance the quality and coverage of essential health, nutrition, psychosocial development and early education services of Filipino children aged 0 to 6 years. These policies cover issues such as employment of children, child abuse and discrimination, and international and domestic adoption.

The DSWD has achieved milestones in attending to the needs and welfare of all sectors in society. One of the major contributions is its commitment to advocate self-reliance by incorporating skills development to every social sector. Family welfare

targets social preparation for project participation and community volunteer resource development; women's welfare aims at self-enhancement skills development, maternal and childcare skills development and productivity skills development; emergency assistance tackles disaster management capability-building; and the program for disabled persons caters to self-social enhancement services.

Among the different levels of Local Government Units (LGUs), the municipality has the biggest responsibility in implementing social welfare services. Community participation is being harnessed in the services the DSWD has devolved to LGUs, such as family and women's welfare; while it is also implied in child and youth welfare, through the institution of community-based services. Its key program for poverty alleviation managed by the national office applies community organizing before services are delivered to the community, which they themselves pick out as relevant to their needs (Bautista, 2002).

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

The International Labor Organization (ILO, 1998) defines the informal sector as "small-scale self-employed activities (with or without hired workers) at a low level of organization and technology with the primary objective of generating employment and incomes. The activities are usually conducted without proper recognition from authorities and escape the attention of the administrative machinery responsible for enforcing laws and regulations." On the other hand, the Social Reform Agenda, which was launched by the Ramos administration in 1994, defines the informal sector as "very small scale units producing and distributing goods and services and consisting of independent, self-employed producers in urban and rural areas some of whom also employ family labor and/or a few hired workers or apprentices, which operate with very little capital or none at all; which utilize a low level of technology and skills; which operate at a low level of productivity; and which provide low and irregular incomes and highly unstable employment" (Lazo 2000). Lazo (Lazo 2000) proposed that the definition of the informal sector might gain more clarity by enumerating the sub-sectors within the informal sector, thus:

- home workers;
- microentrepreneurs/petty producers;
- small miners;
- small-scale construction workers;
- street vendors, hawkers, peddlers;
- drivers and operators of taxicabs, *jeepneys*, tricycles;
- petty retailers such as owners of *sari-sari* stores;
- barter traders;
- domestic helpers.

In addition to the groupings mentioned above, the Department of Labor and Employment (ILS/DOLE, 1994) also includes the unemployed in the informal sector.

Given the nature of the sector, informal sector activities are largely unrecorded and unregistered in official statistics. Thus, estimating the size of the informal sector is fraught with difficulties. However, estimating the informal sector to consist of self-employed own-account workers and unpaid family members, Soriano and Sardana (1998) reckon the informal sector to have grown from 11.3 million in 1986 to 13.5 million in 1996, accounting for 51.5% of the total number of employed persons during the period. On average, 57% of those in the informal sector are in the agriculture sector, 33% in the services sector and 6% in the industry sector.

2.2.2 Problems and Features of the Informal Sector

Precisely because the informal sector is outside the scope of most government regulations, workers in the informal sector have limited access to social protection (e.g. social insurance and labor legislation) enjoyed by workers in the formal sector. Lazo (2000) succinctly summarizes the issues confronting the informal sector:

Statistical and Policy Invisibility

Because of the dearth of official statistics, there is little appreciation of the magnitude and importance of the informal sector. As a result, the lack of data translates to policy and budget invisibility. In addition, informal sector workers are not organized. This fragmentation perpetuates the invisibility of the sector to policy makers.

Poor Working Conditions and Lack of Standards

There is no well-defined employer-employee relationship in the informal sector. In most cases, workers in the informal sector are self-employed. Also, in cases where some semblance of an employer-employee relationship exists, there are no formal contracts, only verbal agreements on the terms and conditions of employment, thus making the workers vulnerable to exploitative working conditions. As such, terms and conditions of work are substandard and are not subject to strict enforcement and regulation. Work hours are long and the workplace tends to be inadequate. Wages are low and other fringe benefits are non-existent.

Lack of Access to the Formal Social Security System

Although self-employed workers with a net monthly income of PhP.1,000 per month have the option to enroll with the SSS, only 13 % of the total SSS members in 2000 are self-employed workers (a total of 3 million registered as self-employed out of the 23 million SSS members). Thus, workers in the informal sector remain largely outside the reach of the formal social security system. This occurs because of the administrative difficulties involved in collecting their contributions. Specifically, given the irregular and seasonal nature of their incomes, it is difficult to determine the appropriate amount of contribution that will be required of the informal sector worker. Also, because informal sector workers are widely dispersed, the administrative machinery for collecting contributions and paying benefits remains inadequate (SRI, 1996).

Lack of Access to Productive Resources, Precarious Employment and Uncertain Incomes

Limited access to productive resources such as raw materials, training, credit, technology and markets are major obstacles in improving productivity and increasing incomes in the informal sector. Because of lack of assets, those in the informal sector find it difficult to access the formal credit market. Thus, they rely mainly on microfinance programs.

2.2.3 Social Assistance and Services: Benefits and Transfers

Some social assistance/transfer programs address the needs of the informal sector. These programs are generally designed to help the poor. In the Philippines, the most important social assistance program is the rice price subsidy program. At the height of the Asian financial crisis in 1998, this program received the most in terms of government funding (PhP.8 billion). The government also experimented with a public works program in addressing past crises (e.g. in the mid-1980s). It has also initiated a health insurance scheme for indigents in the late 1990s. In addition, the government has implemented the Comprehensive and Integrated Delivery of Social Services (CIDSS) program in poor communities as an integrated approach to poverty alleviation.

Rice Price Subsidy Program

Essentially, the rice price subsidy program aims to provide rice to consumers at a price below that prevailing in the market by setting a ceiling price and to protect farmers' income by setting a floor price for *palay* (paddy). It is administered by the National Food Authority (NFA), which transfers income to consumers by subsidizing the cost of the consumption of rice.

However, studies (Clarete *et al.*, 1998; Roumasset, 1999) indicate that the NFA has not been able to prevent high consumer prices or low producer prices. Figure 1 in the Appendix shows that retail prices have been consistently higher than the official NFA release price from 1995–999. Similarly, farm-gate prices of *palay* were typically above the official NFA support price in the same period – making the latter irrelevant to farmers. Roumasset (1999) attributes the divergence between official and actual market prices to the fact that the NFA is a relatively small player in the total rice market of the country.

Public Workfare and Employment Programs

The Philippines has had rich experience in implementing public works programs as counter-cyclical interventions from 1973 to 1994. However, documentation on the experience has been poor and scanty.

Food for Work Program. This program was implemented progressively from 1986–91 in Negros Occidental and five other provinces. It was meant to mitigate the impact of the sharp decline in world sugar prices on sugar cultivators, particularly the

wage-dependent but unemployed sugar workers or sakadas. It included activities involving land development (small irrigation projects and agro-forestry work in the uplands), physical infrastructure development (constructing and rehabilitating roads and bridges, public markets) and social infrastructure development (day care centers, health and training facilities). Participating workers received both cash and in-kind (rice) payments.

Rural Works Program. The Rural Works Program funded small infrastructure projects (repair and maintenance of schoolrooms, health and daycare centers, roads, bridges and irrigation networks; cleaning of estuaries, drainage and waterworks systems; and reforestation programs) in selected depressed and rural communities to assist workers displaced by company closures/retranchment and those affected by El Niño. Workers were paid minimum wage. Some 3,364 unemployed workers found temporary jobs in various government infrastructure projects worth PhP.4.4 million under this program (Reyes *et al.*, 1999).

Health Insurance for Indigents

The 'Medicare para sa Masa' (Medicare for the Masses) of the National Health Insurance Program (NHIP) extended the coverage of Medicare benefits to the indigent or marginalized sector which accounts for about 40% of the population.

Beneficiaries are given health cards or IDs which entitles them to in-patient curative care, including room and board, drugs and medicines, x-ray and laboratory expenses, doctors' fees, operating room/surgical operations, regular out-patient benefits and special out-patient services for specific illnesses including primary consultation with physicians, chest x-ray, urinalysis, fecalysis, sputum microscopy and complete blood count. The program provides a built-in response mechanism that will help the poor gain better access to health services during times of crisis. Given their low incomes, indigents typically utilize government health facilities.

Comprehensive and Integrated Delivery of Social Services (CIDSS)

The primary goal of the CIDSS is to empower impoverished and disadvantaged families, sectors and communities so that their minimum basic needs are met. Among the social protection strategies that the CIDSS pursues (Bautista, 1999) are:

- (1) Convergence of services provided by government and civil society organizations;
- (2) Targeting of primary beneficiaries of services to be delivered at the local level;
- (3) Community organizing;
- (4) The prioritization of the basic requirements for survival and security of marginalized individuals, including other enabling needs;
- (5) Upgrading of administrative, technical and managerial capabilities of local government units (LGUs) in the delivery of social services; and
- (6) Generation of revenues from alternative sources aside from those allotted by the national government.

The focal programs of CIDSS include the following: family and community welfare, women's welfare, child and youth welfare, emergency assistance, self-employment assistance (SEA-K), food and nutrition, health, water and sanitation, income security, peace and order, basic education and literacy, participation and governance and infrastructure. There are numerous projects under each of these programs, which require the close coordination with other government instrumentalities.

An independent evaluation of the CIDSS indicated that the program had achieved some degree of success in addressing the minimum basic needs of local communities (Bautista, 1999). Ninety-eight percent of respondents in CIDSS areas indicated that the quality of life in their local communities improved compared to 84.8% in non-CIDSS areas.

2.2.4 Voluntary Schemes: Savings, Credit and Microinsurance Schemes

A large segment of poor households in the Philippines are involved in some form of microenterprise. Because of stringent requirements (especially with respect to collateral) and inadequate information on financing sources, the poor do not borrow from formal financial institutions. Additionally, the high transaction costs involved in the processing of small loans, predisposes banks against providing their services to the poor. Thus, the poor usually get credit from relatives, friends or from private moneylenders who charge high interest rates but do not require collateral.

Access to credit can be an important instrument for social protection. It not only provides the poor with capital for their livelihood. It can also help the poor in smoothing their consumption and income streams in times of crisis. In the Philippines, microcredit to the poor has come from two main sources: government-directed credit programs and private microfinance institutions.

Government-directed credit programs are funded out of the government's budgetary allocation or loans/grants from donor agencies and are lent out at subsidized rates. On the other hand, private microfinance institutions including credit cooperatives, credit unions, rural banks and credit NGOs, are also an important source of seed capital for the livelihood or microenterprise activities of the poor.

Self-employment Assistance – Kaunlaran (SEA-K)

The SEA-K is a community-based microfinance project under the Comprehensive and Integrated Delivery of Social Services (CIDSS) program of the Department of Social Welfare and Development (DSWD). It is aimed at building the capabilities of people's organizations (POs) to self-administer the provision of socialized credit. In Level 1 of the program, 20 to 30 members are organized to form a group called SEA Kaunlaran Association (SKA) and are provided with training in microfinance development.

SEA-K provides these people's organizations some seed capital (no more than PhP.150,000) at zero interest to lend to their members for their livelihood needs. The average size of the individual loan is PhP.6,000. Some SKAs impose a 10 % service

fee (NCC Policy Notes 98–05). Individual borrowers pay weekly amortization to the SKA, which in turn repays the DSWD. The collection is deposited in a bank and forms part of a revolving fund.

The 25 to 30 member POs are then subdivided into smaller groups of five, which act much like a pressure group. If one of the members fails to pay his dues, the other members are obligated to pay on his behalf. Failure to repay the loan may result in a non-release of the loans to the other group members. These sanctions in effect foster a sense of responsibility for the loans that one avails and places an element of shame on the borrower when he cannot meet his dues, since it will put undue financial burden on the part of his co-members.

Level 2 deals with the institutionalization of the gains of Level 1 through the organization of the SEA Kabayans, which are comprised of two to five SKAs that have established a good track record in terms of their capability to manage their finances and to generate savings. In this regard, the program has been rather successful in encouraging its members to save. As of 1997, its beneficiaries have been able to save PhP.52 million.

People's Credit and Finance Corporation (PCFC)

The PCFC was intended to be the lead institution in the wholesale delivery of funds to microfinance institutions (e.g. rural banks, cooperatives, NGOs, and people's organizations) for re-lending to the poor.

The PCFC operates a number of credit programs: the Helping Individuals Reach their Aspirations through Microfinance (HIRAM), the Rural Microenterprise Financing Program (RMFP) that is funded by ADB, the International Fund for Agricultural Development (IFAD), and the UNDP Microfinance Support Program (MSP). All programs make funds available to eligible microfinance institutions for on-lending to the poor. The RMFP uses the modified Grameen Bank approach (GBA) to lending, while the MSP aims to assist retail microfinance institutions by providing them loans concurrently with technical assistance.

The PCFC provides both investment credit (e.g. loans for on-lending) and institutional credit (loans to strengthen the capability of partners to implement and manage their PCFC funded credit programs). It charges an interest rate of 12 % and a service fee of 1%. The maximum initial end-borrower loan that is allowed is PhP.6,000. Furthermore, conduits are required to re-lend the funds within 90 days from the date of release of the original loan from the PCFC. For the various conduits, the average loan size is PhP.8,000. So far, the PCFC has released a total of PhP.2.5 million in loans – PhP.1.5 million under the HIRAM and PhP.0.8 million under the ADB-IFAD.

Private Microfinance Institutions

A survey of 86 organizations of informal sector workers (with a combined membership of close to 40,000) in Metro Manila in 1996 indicates that these organizations

provide a wide range of innovative programs and services that serve to protect their members from contingencies with little or no help from the government. Prominent among these programs are the mutual assistance programs, the savings and credit/lending services (SRI, 1996).

Under the mutual assistance program, members are required to contribute a fixed amount on a regular basis to a common fund, which is used to service the claims of members in times of contingencies such as death, sickness, accident, disability and natural calamity. Thus, these organizations take on the character of an informal social security system.

Death and disability benefits are generally given in the form of grants, while other contingent benefits are in the form of loans. In most cases, the loans are sourced under the savings and credit/lending services of the organization in which case the principal is determined by the amount of savings deposits or capital shares that a member has. Meanwhile, 65 of the organizations surveyed offer some type of savings program to their members while 84 provide a credit program.

On the other hand, the amount of contributions varies according to what is considered affordable to members. Note that the majority of members of these organizations come primarily from the urban poor with an average monthly income of PhP.2,500 to PhP.7,500. The case studies of four of the 86 organizations included in the SRI survey indicate that microinsurance schemes can be financially sustainable despite the small contributions that members can afford. It appears that key to this success is the establishment of a link between savings and credit so as to maximize savings mobilization and the capital base to service social protection needs (SRI, 1996).

Ahon sa Hirap, Inc. (ASHI)

The ASHI has the distinction of being the oldest existing replication of the Grameen Bank approach (GBA) to credit delivery to the bottom poor in the Philippines. ASHI bases its mission on the principle that given direct access to non-collateral loan funds, the poor can increase their income and employment opportunities and in so doing not only rise from poverty, but contribute to the social and economic development pursuits of the country. Founded in 1989 as an action-research project of the University of the Philippines Los Baños (UPLB), ASHI is now an NGO that can enter into contract and loan arrangements with and receive grants and donations from various local and international agencies.

ASHI members have grown from 100 in 1989 to 8,802 to date. Its loan portfolio has increased from an initial PhP.40,000 in 1989 to PhP.21.1 million as of March 2000. More notable is the achievement of a 98.89% loan repayment. ASHI attributes this to its earnest effort to impress among its clients the four core values of unity, discipline, hard work and perseverance.

Access to microfinance services through ASHI has been associated with a substantial reduction of poverty. Among clients in the fourth loan cycle and above, the number of very poor was reduced from 76% to 13%. About 51% of members in this

group have progressed from being very poor to moderately poor and some 22% have completely come out of poverty. In comparison, about half of those who did not join four years ago are still very poor and another half are moderately poor.

ASHI clients have also improved their quality of housing. More than half (53%) of ASHI clients now live in houses that score 'out of poverty' on the ASHI house index. Also, there was a significant difference between the educational attainment of ASHI clients and the children of non-clients. Although only ten out of the 152 ASHI families have children attending college or have already graduated, this rate is still better than that of the non-client group, of which there are no children in college.

During times of poor catch or poor harvest, clients and non-clients had similar coping strategies – tightening their belts and eating less. However, only a small percentage of ASHI clients compared with non-clients borrowed from usurious sources. This is because ASHI does function as a safety net in times of calamities or 'hungry' seasons, as members could withdraw from their emergency fund savings (group savings) or from their personal savings (savings which earn interest can be withdrawn anytime). Also, rescheduling or restructuring of loan payments during such times is possible. In addition, there are special loan windows for home repairs, as well as health and educational loans.

Lastly, there is a striking difference between ASHI clients and non-clients in savings behavior. Eighty-four percent of ASHI clients reported that they had personal savings while only 16% of non-clients had any. This may be due to the fact that savings is an important feature of Grameen banking.

2.3 Labor Market Policy

2.3.1 Active Labor Market Policy

Promotion of Small Enterprises

The promotion of small and medium enterprises is a major development strategy being adopted by the government. The role of SMEs in the Philippines is not limited to the simple creation of wealth or capital. They are vital to dispersing new industries to the countryside and stimulating gainful employment. In this sense, they bring about more balanced agro-industrial growth and equity in income distribution.

SMEs tend to be far more innovative in developing indigenous or appropriate technology, which could then grow into pioneering technological breakthroughs. Available SME programs may generally be classified into four categories:

- (1) Financial;
- (2) technical, which covers entrepreneurial and workers training;
- (3) backward linkages; and
- (4) research information.

Ninety-five percent of enterprises in the Philippines are SMEs, employ 55% of the labor force, and contribute some 25% of value-added. As such, their promotion and

enhancement are of vital importance and necessity in order to maximize their potential to push the nation into sustainable development and global competitiveness (APO, 1999).

Available data from the Department of Trade and Industry indicate that 88% of manufacturing establishments are cottage-type size. About 10% are small enterprises, and about 1% are large enterprises. Employment generation by cottage-size enterprises is 23%; small enterprises, 8%; medium enterprises, 19%; and large enterprises, 50%. Significantly, 97% of exporters are SMEs.

SMEs face a number of problems, including poor policy and institutional environment, inadequate technology and production skills, limited access to finance and other inputs, poor access to information and knowledge, and lack of good management structures, systems and capacities. These are exactly the areas of strength of large enterprises.

The government directly participates in the provision of financial services to SMEs and poor households through its banking institutions and numerous directed credit programs. Two government financing institutions – the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) – lend to MicroSMEs and poor households including farmers and land reform beneficiaries either directly through their retail lending windows or indirectly through their wholesale lending windows.

The financial sector reforms initiated by the government in the 1990s, e.g. bank entry and branching liberalization, have laid the groundwork for promoting microfinance in the country. This was further boosted by the recent passage of the General Banking Law of 2000, which includes provisions that set a much clearer policy framework for promoting microfinance (Lamberte, 2001).

Notwithstanding this considerably improved policy environment for microfinance to flourish, banks still face some constraints in expanding their financial services to MicroSMEs and poor households. Lending to MicroSMEs and poor households is a very risky venture, especially if lenders base their decisions solely on the strength of the cash flow position and character of borrowers. Instability of the economy can make those loans much riskier because cash flows can easily dry up during a sudden downturn of the economy. Also, poor infrastructure increases the cost of providing financial services to MicroSMEs and poor households (Lamberte, 2001).

Guarantee and Financing Services for SMEs

The government is not lacking in programs to assist SMEs financially. The Guarantee Program provides a guarantee cover of up to a maximum of 90% on the loans of qualified entrepreneurs. The guarantee primarily works as a collateral substitute or as a collateral supplement. A microfinancing facility provides credit by co-financing with umbrella NGOs, and allows financing institutions to rediscount their SME loan/credit instruments. It can also finance up to a maximum of 90% of the total project cost of the SME, with the financing institutions co-financing at least the remaining 10%.

A short-term direct financing facility makes available a credit line for working capital and receivables financing or a short-term loan which can be repaid within one year for the purchase of simple machineries and equipment, setting up of sales outlets and other business expansions. There is also a direct lending program which addresses the credit needs of SMEs for financing their purchase orders for domestic or foreign markets.

Human Capital Formation, Skills Development (Labor Supply)

The country's Department of Labor provides bridging or transition opportunities, especially to the vulnerable sectors, to help them graduate into more productive, remunerative, secured or more formal employment or livelihoods. The key programs for this purpose are:

Promotion of Rural Employment Through Self-employment and Entrepreneurship Development (PRESEED). The Department provides under PRESEED self-employment opportunities among rural workers and their families, particularly the 'assetless' and 'landless' groups who have entrepreneurial potential, through access to entrepreneurship training, credit and technical assistance.

Support to Kabataan Program. The Kabataan Program is the government's flagship program for the youth. It encourages high school, college and vocational students and out of school youth to engage in constructive and productive activities throughout the year. Its components are:

- **Special Program for Employment of Students (SPES).** The SPES helps poor, but deserving students pursue college education by providing them with employment opportunities during summer and / or Christmas vacations. Employers are encouraged to hire the youth by giving them the incentive of paying only 60% of the minimum wage, with the government paying the balance of 40% through education vouchers.
- **Work Appreciation Program.** This year-round youth program promotes work appreciation and work ethics among youth by exposing them to actual work situations, familiarizing them with work procedures/standards, use of machines and tools and providing them other practical knowledge relevant to specific occupations.

Tulong Alalay sa Taong May Kapansanan. Pursuant to the Magna Carta for Disabled Persons, this program attempts to integrate persons with disabilities into mainstream society by providing them with training and employment opportunities.

Rural Works Program. The Department's Rural Works Program aims to generate temporary job placement in community-based infrastructure projects that are labor intensive to address the displacements caused by the recent financial crisis and other economic restructuring problems, particularly in rural areas.

The ILO has developed practical guidelines in employment-intensive infrastructure programs, which are being introduced in the Philippines (ILO, 2000).

Other DOLE carrier programs and projects are:

Human Resource Development Program. The program seeks to empower employers, the end-users of skilled workers to achieve productivity and competitiveness and to train workers to think critically and creatively, and to nurture the values of work ethics, self-reliance, self-discipline and nationalism. The programs in this area include the Industry Capability Build-up Program (ICBP), Technical Vocational Education and Training (TVET) for Workers, Skills Training and Certification, the Dual Training System (DTS) and the Apprenticeship Program (TESDA).

Maritime Training Program. To maintain the world class standing of Filipino seafarers and in compliance with the country's commitments to the Standards for Training, Certification and Watch-keeping (STCW) Convention, DOLE conducts refresher and upgrading courses for maritime officers.

Labor Standards Enforcement Program. Through the inspectorate program, DOLE regulates and enforces compliance with existing laws on general labor standards, technical safety standards and general health and safety standards. It also undertakes development initiatives like the Work Improvement for Small and Medium Enterprises to promote voluntary compliance with labor laws and promote appreciation of their value to a productive work place.

Occupational Safety and Health Program. To inculcate awareness of safety and health at the workplace among employers and workers, DOLE conducts training and research projects on occupational safety and health. The training conducted includes courses on Basic Occupational Safety and Health, Work Environment Measurement, Construction Safety, the Zero Accident Program and an appreciation course addressing substance abuse.

Reskilling

In the context of displacement of the workers during the Asian crisis, reskilling provided the means to equip retrenched workers with skills for new jobs, and offer a means to generate some form of income, either through regular employment or self-employment. Reskilling programs ensure that workers are equipped with functional literacy and high value added skills (in the case of overseas workers), which are within global standards. To ensure availability of skills for export industries, the government made investments in equipment and technology for skills building. The Technical Education Skills Development Authority put in place a Safety Net Training Grant Scheme to address primarily the displacements due to the Philippines' accession to the WTO-GATT (Mendoza and Guillermo, 2000).

Linking Training Needs and Market Demand

Job Watch of DOLE, as the name implies, generates and publishes information of worker displacement with the intention of matching this with available job vacancies. Displaced workers register with the Public Services Employment Offices (PESO), which carry out Job Watch in each municipality/city. Reports from the municipali-

ties are summarized into provincial and regional reports. The Bureau of Labor and Employment Statistics (BLES) integrates this in order to come up with a national picture of the extent of displacement and the potential for reemployment (see Table 7, Appendix). Only those who registered get information on the government's program for displacement.

The use of information on displacement is limited to reports generated by DOLE as part of its monitoring system. In some local government units like Cebu City, the data from the PESO are utilized for the city's manpower planning and development efforts and other social welfare projects of the government.

Another component is Job Link. It provides different kinds of interventions that aim to accelerate reemployment of displaced workers either through jobs or through self-employment. Reskilling programs fall under this component, through the different skills development programs and access mechanisms of various government agencies. Programs range from skilling programs for individuals and companies, livelihood generation programs and employment assistance to some forms of assistance to dependents of displaced workers through scholarship programs. Job Link, facilitated through the PESO, also offers training cum production for rural workers, an expanded livelihood development program and a place assistance program for overseas workers.

Livelihood and Entrepreneurship Development

The Technology and Livelihood Resource Center (TLRC) spearheads enterprise development and the creation of livelihood opportunities, particularly benefiting marginalized sectors, through an integrated and strategic approach covering the promotion, utilization and funding of resource and technology breakthroughs. In partnership with local governments, the TLRC brings its expertise and resources through the establishment of Technology and Livelihood Development Centers (TLDCs) in cities and provinces. The TLDCs act as channels to deliver TLRC's livelihood interventions at the local level.

2.3.2 Passive Labor Market Policy

Quality

The Philippine educational system is one of the most mature in Asia and permeates even the remote *barangays*. However, the Philippine government is faced with the challenge of improving the quality of education. Education quality is a function of many factors: qualification and number of teachers; availability of learning materials and facilities; classroom space and quality. Unfortunately, most Philippine public schools are lacking in these areas. Notwithstanding improvements in providing universal access, the performance of Filipino children in achievement tests and the differences in the performance between public and private schools reveal a quality problem. For instance, Filipino students ranked poorly in the Third International Mathematics and Science Test (TIMST) administered in several countries in 1999, i.e.

ranking fourth from bottom in science and third from bottom in mathematics (The 20/20 Initiative: A Comprehensive Agenda of Action for the 21st Century, 2001).

Access

As of school year 1999–2000, about 97% of children who should be in elementary school were actually enrolled. Enrollment in high schools also rose as the participation rate improved to 65% in the same year. In 1999, the adult (age 15 and above) literacy rate was 95.1%. The government is said to have at least coped with the growth in enrollment, which had swelled to more than 2% annually for elementary school and more than 3% for high school since 1981, together growing faster than the population. However, the Asian economic crisis of 1997–98 undermined the gains as indicated by the increase in drop-out rates and the transfer of students from private to public schools (Presidential Task Force, 2001).

Access to education depends largely on family income and infrastructure. Children of low-income households cannot meet their demand for education, because there are no credit markets for education.

Access and cohort-completion rates vary greatly between regions, and the quality of education is widely regarded as having declined. The gains in access to basic education are overshadowed by the difficulty in enhancing the school's holding power. For instance, for every 100 children who enter Grade 1, only 69 are able to finish Grade 6 and less than half (about 48 only) are able to complete secondary schooling. More than 30% of children drop out before reaching Grade 6.

The existing system does not fully prepare Filipinos for the most pressing challenges of the labor market today. Education and training policies must provide an environment for all, especially the talented poor, to seek and access training and retraining for the needed skills. This can be achieved through scholarships and education loans. Further research and development training is also needed for a government-financed center of excellence.

Inadequate investments in education and training have kept a large proportion of workers in low-productivity sectors. Nearly 40% of the employed are still in agriculture at this stage of the country's development. Lacking industrial skills and discipline, workers in agriculture who are no longer needed due to gains in agricultural productivity are absorbed not by the high-productivity sectors, but by the low-productivity ones like community, social, and personal services.

Trends in education financing are not encouraging: the rapid expansion of state colleges and universities (there are 130 of them today, compared with 25 in Japan and 30 in Thailand) has begun to 'crowd out' basic education, which has the highest social rate of return.

Other Income Support

The National Statistics Office (NSO) includes as income support and as components of employment benefits the following items: bonuses, food subsidies, cost-of-living

allowances, commutable transportation and representation allowances, commissions paid to employees, retirement and terminal pay, and gratuities. They are designated as 'other benefits' in the Annual Survey of Establishments. A much broader definition would include a wider assortment of benefits. Welfare plan provisions found in collective bargaining agreements, for example, could range from Christmas (13th month) pay and job enrichment programs to scholarships and wedding gifts.

There is no provision for unemployment benefits. Retrenchment benefits usually take the form of early retirement benefits, which are both provided by the government and private sectors. In the public sector, the most popular employee services are uniforms, meal benefits, and rice benefits (Binghay, 1998).

Overseas Employment

The Philippines is a big exporter of labor. By 1995, 1.5 million Filipinos lived abroad as permanent immigrants and a further 2 million at least worked temporarily abroad or at sea (Woodiwiss, 1998). The remittances they send home amount to 6.4% of Filipino GNP, and 10% if unrecorded cash and goods brought home by workers are included (ILO 2000: Tables 2, 4). These inflows, together with the household flows within the country, constitute a significant element of the Filipino welfare regime (Gough, 2000). Today, DOLE estimates that there are five million Filipinos working abroad.

The Overseas Workers Welfare Administration (OWWA) provides pre-departure, on-site and reentry programs for OFWs through the Overseas Workers Welfare Fund. Pre-departure services include grants of insurance coverage, pre-departure loans and the Medicare Program, among others. On site services consist of repatriation assistance, family assistance loans, the setting up of Filipino Workers Resource Development Centers, community outreach programs, and public assistance, among others. Additionally, there is a program for returning OFWs to reintegrate them into mainstream society. The program components are airport assistance, disability assistance for those who suffer a work-related accident or injury; a burial gratuity program for legal heirs of deceased OFWs, training grants for seaman's career development and the 'skills for employment' scholarship program for children of deceased or disabled OFWs. Table 8, Appendix shows the status of welfare cases from 1984–2000.

Minimum Wage Policy

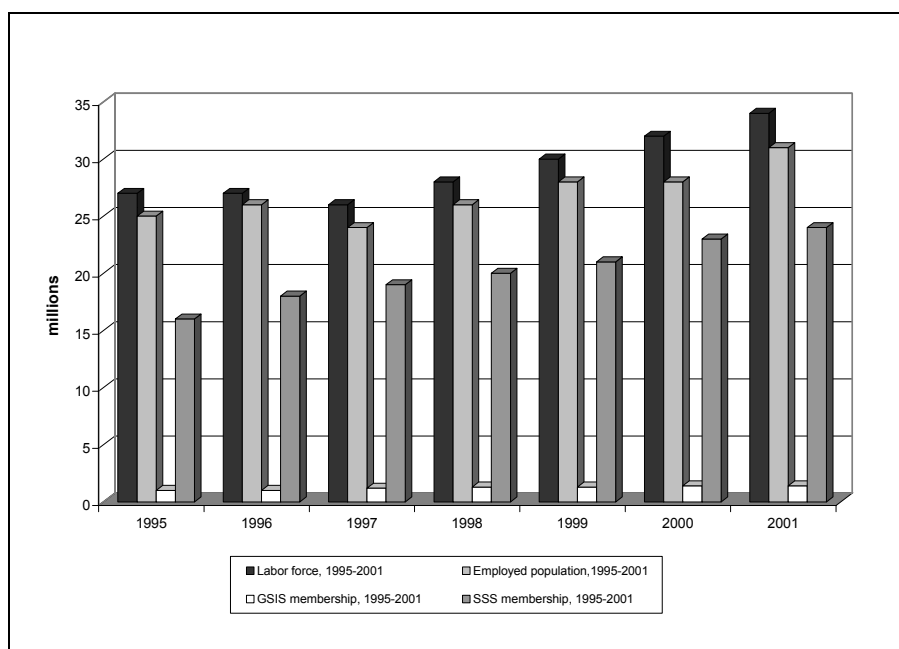
In the Philippines, the decentralization of minimum-wage setting and the greater reliance on bargaining between workers and employers in wage setting are directed at relaxing or removing restraints that prevent the price of labor from adjusting to reduce unemployment (House of Congress, 2001). Operationally, it is the Regional Tripartite Wages and Productivity Board, which decides on the minimum wage for every region (as discussed earlier).

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage

Coverage gaps occur due to statutory exclusions, poor enforcement, or the lack of attractive benefits despite high contributions for particular groups.

Figure 1: Labor Force and GSIS and SSS Members



Statutory Exclusions. Contributory social insurance covers only the larger enterprises in the formal sector. Smaller employers, particularly in industries that compete with the informal sector, are often excluded from many of the provisions, as are household workers, daily-rated laborers, farmers, fishermen, and many urban self-employed. The informal sector thus operates outside the scope of regulations, with low and unstable levels of income, and poor working conditions. The result of the statutory exclusions is that many of the most vulnerable people are not protected.

In the Philippines, about 25 million workers from both the private and the public sectors, and another 1 million dependents, receive social security benefits in the form of health care, retirement and social disability pensions and other minor assistance in the form of maternity and funeral benefits (Figure 1). If the target constituency is the

entire labor force of about 34 million workers, then social security is largely off the mark.

The population coverage of the formal social security system in the Philippines is among the highest in Asia. That suggests that at least the workers as a group pay the costs of their own security. The majority clearly lack any 'exchange entitlement' to secure social security needs – health care, housing, education, and retirement benefits.

Even among those covered, the poor workers benefit disproportionately little from social security services. The employee contribution is regressive, and poor cross-subsidization among income groups, among age groups and across regions makes the social insurance program a benefit for the better off, paid for in part by the poor. The better off have better access to social insurance because they live in urban areas where the services abound, and they know how to use the system.

Quantifying the Benefits

Short-term insurance benefits include sickness, funeral grants, maternity benefits, and rehabilitation service (see Box 1, Appendix). In 2000, Medicare captured the largest share of short-term insurance benefits, at 71%. Maternity benefits have a share of 19%, with rehabilitation service having the lowest share at 0.2%.

Statistics in 2000 obtained from SSS suggest that death benefits, at 45%, have the largest share of benefits among the three long-term programs. Retirement collected 40% of all long-term benefits in the same year.

Disability pensions had a share of only 19% of benefits. These claimants received an average of PHP 2,669 each. Although rigorous screening procedures by SSS and the Employees Compensation Commission ensure the payments accrue to those incapacitated by work-related accidents, it is also possible that high disability claims may also reveal moral hazard problems when there are incentives to characterize oneself as disabled.

SSS statistics also show that housing accounted for only 1.2% of total loans in 2000. Salary loans, on the other hand, pulled in 98% of all the loans during that year. Together, salary and housing loans accounted for 99% of total loans.

Social Assistance Programs in the Informal Sector

Rice Subsidy Program

From 1995 to 1998, NFA's rice releases as a percentage of the country's total rice consumption were 10.7. This indicates that on average only about 11% of the country's 14 million households could have actually benefited from the NFA's rice subsidy. However, during the height of the Asian financial crisis in 1998, NFA's rice releases expanded to 22.2% of total rice consumption as the NFA increased imports of rice to about 2 million tons.

On the other hand, in 1995–98, NFA procurement of *palay* as a percentage of total *palay* production was less than 1% on average. This suggests that less than 1% of the estimated 3 million farmers could have actually benefited from the implicit subsidy on *palay* farmers.

Public Workfare and Employment Programs

The number of individuals employed by the food for work program fluctuated between 179,000 and 883,000 during the period 1986 to 1991. On the other hand, the rural roads project created 247,600 work days per year at its peak, while some 3,364 unemployed workers found temporary jobs in various government infrastructure projects worth PhP.4.4 million under the rural works program in Mindanao in 1998 (Reyes *et al.*, 1999).

Health Insurance for Indigents

As of October 2000, only 551,328 households (or some 2.5 million individuals) in 84 provinces and cities and 777 municipalities were participating in the Indigent Program. However, the Arroyo administration plans to accelerate the expansion of the program.

CIDSS

By 1997, CIDSS was in 1,154 *barangays* in 432 municipalities in 77 provinces. This corresponds to 28.1% of the target municipalities and in 2.7% of the target *barangays* (see Table 1). Thus, the coverage of the CIDSS is by no means large.

Table 1: Comprehensive and Integrated Delivery of Social Services (CIDSS) Target Areas

1994							
Local Government Units (LGU)	Province	Municipality			Barangay		
		Total	CIDSS covered	% of total	Total	CIDSS covered	% of total
SRA Areas (Social Reform Agenda)	16	221	28	12.6	4,238	56	1.3
Non-SRA Areas	17	378	47	12.4	10,386	94	0.6
Total	33	599	75	12.5	14,624	150	1.0
1997							
LGU	Province	Municipality			Barangay		
		Total	CIDSS covered	% of total	Total	CIDSS covered	% of total
SRA Areas	20	960	135	14.1	19,056	407	2.1
Non-SRA Areas	57	575	297	51.6	24,177	747	3.2
Total	77	1,535	432	28.1	43,233	1,154	2.7

Source: Bautista, 1999, Table 1.2 page 12

Microcredit and Microinsurance Schemes

Because of the very nature of the informal sector, data on the reach of microcredit and microinsurance schemes are sketchy. Despite this, it is clear that coverage of these schemes is small relative to the total number of informal sector workers. For instance, SRI (SRI, 1996) found that only 40,000 workers are members of the informal sector organizations in NCR (National Capital Region) that implement microcredit and microinsurance schemes. This number represents one percent of the total number of informal sector workers in NCR.

Self-employment Assistance – Kaunlaran (SEA-K)

This program has been found to be fairly effective in terms of outreach, having reached nearly four times its estimated number of beneficiaries (Lamberte *et al.*, 1997). This is attributed to the network of social workers in SEA-K. Thus, community-based development workers and community associations are found to be effective facilitators and conduits of credit funds to the poor.

As of 1997, around 3,461 SKAs representing 77,470 individuals in 16 regions have benefited from PhP.292 million in seed money released for Level 1. Beneficiaries are women (receiving more than 11% of total loans granted), and also include those who search for and collect discarded items, out-of-school youth, street children and persons with disabilities, poor families, single parents, the unemployed and senior citizens.

In 1998 alone, 19,757 member beneficiaries were provided a total of PhP.53.4 million for livelihood projects under Level 1. On the other hand, PhP.12.6 million was granted to 16 SEA Kabayans composed of 49 SKAs to augment their capital base.

People's Credit and Finance Corporation

As at the end of December 2000, the PCFC had 178 active conduits. Of this number, 37% were rural banks, 31% were cooperatives, and 15% each were NGOs and cooperative banks. In turn, some 324,108 individuals have benefited from its various programs.

3.2 Feasibility

The social insurance programs are inherently inefficient and costly to run.

Because social insurance is tied to a narrow contribution structure on a struggling formal labor sector, this has led to inefficiencies. Prior to 1998, SSS has stockpiled unnecessarily high surpluses – due to extremely well-managed investment portfolios and restrained spending – at the price of inadequate benefits for workers. Today, it is on the verge of bankruptcy because of bad investments.

For SSS, significantly higher benefits can be given to worker members, or a wider net of benefits can be cast, without threatening the viability of the program. For GSIS, balancing expenditures with revenues is a clear priority. Systematic reform must

make sure social insurance leads to neither deficits that oblige the national government to intervene nor excessive surpluses that reduce benefit payments to workers.

3.3 Financial Sustainability

How adequate are the funds of the system? Without significant reforms leading to improved compliance levels, higher tax rates or reduced benefits, a lower ratio of administrative costs to contributions, and significant improvements in the rate of return obtained in investment, the present social security programs are unlikely to be sustainable in the medium-term (Asher, 1998).

A youthful working population, combined with a shrinking pool of potential workers who can contribute to social insurance through payroll taxes, can set the stage for actuarial difficulties for both SSS and GSIS. The same problems may be caused by bad investments made by the SSS, which has drained the agency of its reserves. Without any payroll tax increases, SSS will fold up in a year or two, according to newspaper accounts.

Underlying demographics would cause future problems in benefit disbursements.

Demographics suggest that the aging of current SSS and GSIS members (which will increase retirement payments) will combine with a shrinking pool of potential workers (which will decrease contributions to social insurance through payroll taxes). The actuarial imbalance – projected expenditures for the benefit of retirement pensioners would exceed likely future rates of wage taxation from the working population – means that serious difficulties lie ahead for the social insurance system. Of course, even if there were no underlying demographics involved, there would still be rising concerns about the existing retirement benefit inequities.

Outside the two social security agencies, factors are at work that sustain stresses on social compensation. Average social wages at the firm level are expected to decline in the wake of increasing ‘flexibilization’, which entails labor cost-cutting, subcontracting, and accompanying cutbacks in wages and employer-based benefit programs. Tax-based programs of social protection are likewise expected to suffer as a slow-down in the growth of *regular* employment in the formal sector reduces the revenue basis of contributory social insurance schemes.

All these would maintain pressure on workers to meet security needs with other sources of income, mostly from social networks.

Social Assistance/Transfer Programs

The financing of social assistance/transfer programs is a critical area of concern in countries where the coverage of the social insurance system is limited. This is the case because that segment of the population which is excluded from the social insurance system has no recourse but to rely on publicly provided social safety net programs during times of crisis. However, the principal issue with respect to the financing of this type of social assistance programs stems from the fact that the need for

such financing increases precisely when the government can afford it least. That is, the government's fiscal position tends to be adversely affected by natural disasters and economic disruptions.

The Philippine experience in 1997 to 1998 illustrates this problem well. Central government revenues started to falter in the last half of 1997 following the onset of the Asian financial crisis. In 1998, total tax revenues were PhP.96.5 billion short of the original target. All in all, the tax effort plunged from 16.3% of GNP in 1996 to 14.8% in 1998 and 13.7% in 1999.

Nonetheless, the budget of basic social services as well as poverty alleviation appear to be better protected relative to the other sectors from the fiscal austerity measures implemented in 1998. Thus, Table 9, Appendix shows that the share of poverty alleviation activities (net cost of NFA operations, which was largely financed off-budget) in the government budget as well as the share of basic social services in the government budget was maintained in 1998. Despite this positive development, real per capita government spending on poverty alleviation (net cost of NFA operations) and basic social services declined that year. This is indicative of the inadequacy of government spending on social safety nets during the crisis (if one abstracts NFA rice price subsidies).

Rice Price Subsidy Program

Because the NFA is engaged in an activity that inherently entails some losses, the government supports the NFA by providing it with budgetary support in terms of both equity infusions and operational subsidies.

This is consistent with international experience in general food subsidy programs which reveals that the cost of transferring income to the poor is high since non-poor families also benefit from such a subsidy. The leakage from such schemes was estimated to be about 50% in India, 60% to 70% in Egypt and Morocco and 50% to 70% in Pakistan (Subbarao, 1996; citing Kennedy, Alderman, 1987). If one assumes a 50% leakage, then the cost-benefit ratio of the NFA rice subsidy is equal to 2.5.

Public Workfare and Employment Programs

The public works program represents a continuous drain on the national government budget. However, in the final analysis, their sustainability should be judged on their ability to make a real contribution to the build-up of physical infrastructure that will increase productivity. Thus, the choice of projects is critical.

Health Insurance for Indigents

With the premium for the health insurance set at PhP.1,188 per household, the target number of indigent population enrolled would cost the central governments and LGUs some PhP.2.2 billion each year beginning 2004. However, it is envisioned that both the national government and the LGUs will recoup these expenditures through increased cost recovery in government hospitals as the National Health Insurance

Program achieves universal coverage. At this point, the current difficulty in expanding the coverage of the self-employed is a major obstacle to achieving universal coverage.

Microcredit and Microinsurance Schemes

Self-employment Assistance – Kaunlaran (SEA-K)

The program's repayment rate is quite high at 90%. This is indicative not only of the strong social preparation of the SKAs, but also of the consistency between the loan size and the borrower's absorptive capacity. At the same time, the administrative cost per peso of SEA-K loan (at PhP.0.10 per peso) is low compared to similar programs. However, since SEA-K loans are interest-free, the program is not able to recover its financial, operational, and administrative costs. This makes the program unsustainable and dependent on the continuous infusion of funds from the government's budget.

People's Credit and Finance Corporation

An assessment of the Grameen-type program of the PCFC indicates that the per capita household expenditures of clients tend to be higher than those of non-clients. Moreover, poverty rates for clients are lower than those for non-clients. These findings suggest that participation in the Grameen-type program helps improve the welfare of clients.⁵ However, Lamberte *et al.* (Lamberte *et al.*, 1997) show that the said program is not able to recover cost, regardless of whether cost reflects administrative cost only or includes financial cost also. Thus, the PCFC is financially unsustainable like the SEA-K.

In an effort to reduce the fiscal costs associated with government-directed credit programs, the government adopted a market-oriented policy framework for microfinance in 1999. With this reform, the government will veer away from the direct involvement of government non-financial agencies (GNFAs) and government-owned and controlled corporations (GOCCs) in the implementation of credit programs. Instead, it is envisioned that private financial institutions will play a greater role as retailers in the provision of financial services to the poor with the government financial institutions (GFIs) acting as wholesalers.

3.4 Gender Equity

Women workers dominate in the services sector (community, social, and personal services); and in financing, insurance, real estate and business services, including retail and wholesale trade. There are more women than men in professional, technical, and related jobs (Maragtas *et al.*, 1999b).

As a result, women workers fare better in the distribution of SSS per capita benefits by sex. Women get more benefits per recipient. Employees' Compensation favors male workers, per recipient, but the gap is narrow.

⁵ This result is replicated in the case of the Ahon sa Hirap, Inc.

Social insurance programs need to be designed to take into account the longer life expectancies of women, the additional implications for women of the risk of loss of support due to death, abandonment, and the less stable earnings patterns commonly found among women workers.

Where benefits are tied strictly to previous earnings, discrimination against women in the labor market is likely to translate into inadequate unemployment, disability or retirement benefits and women's less regular employment patterns can mean either lower benefits or the loss of program eligibility (Ortiz, 2001).

3.5 Costs of Administration

Both SSS and GSIS have statutory limitations on the amount of funds that can be spent on administration. The limit is 10% of revenue. This limit has enabled the two agencies to support a salary decompression scheme. Top-ranking officers enjoy considerably high salaries and perks. But the Presidential Committee on Good Governance has judged the salary levels in the two institutions to be unreasonably high, and is moving to put new restrictions on how the 10% is to be spent.

GSIS is plagued by income shortfalls and poorly managed investments, although it has been more generous in benefit spending. Between SSS and GSIS, GSIS emerges as the more expensive administrator. On average, the operating expenses of GSIS are two to four times costlier than those of SSS. A merger of the two institutions, although a tough political challenge, would achieve scale economies and improve organizational efficiency.

3.6 Targeting

Existing social insurance programs have a mixed record in adequately addressing the insurance needs of many workers, especially needy groups such as poor workers and older workers. Public employees also receive much more generous benefits than private sector workers. Overall, access to benefits is skewed in favor of less disadvantaged groups.

Social solidarity requires risk sharing among income groups, age groups and persons of differing health status. Cross-subsidies occurring among public sector employees and among private sector workers suggest, however, an unintended infraction of this principle owing to differing incentives generated by state policies on contributions and benefits. Records from the SSS, GSIS, and the HDMF indicate that the direction of subsidization is not necessarily from rich to poor, from young to old, or from well-protected groups to disadvantaged groups (Gonzalez, 1996).

The general pattern of cross-subsidies exhibits unflattering features. There are a number of cases when (1) one or more of the poorer groups are subsidizing more well-to-do groups; (2) younger, healthier groups have a higher share in benefits than in contributions; (3) women workers subsidize male workers; and (4) a poor region would be a source of subsidy for less poor regions. Overall, there is little relation-

ship between the vision of solidarity to protect disadvantaged groups and social insurance institutions as they currently function.

As seen in previous discussions, universal programs are relatively easier to administer, but suffer from both high leakage and under-coverage. Benefits are not given to those who are most in need of them. As a consequence, the poor have limited access to social security services. Targeted programs, on the other hand, enhance cost-effectiveness. Target groups receive more benefits for the same cost, or for fixed benefit levels, costs are reduced.

Yet target group-oriented programs, where groups are granted eligibility on the basis of some easily identifiable shared characteristic, are not given the importance they deserve. Apart from massive social assistance programs (e.g. victims of natural catastrophes), few schemes exist that would benefit low-income groups, including poor workers and their families. The handful that exist include calamity loans (given by SSS and GSIS to members who suffer losses arising from natural disasters) and union-based social assistance.

Many of these have tiny constituencies. Organized labor is only a tenth of the entire labor force, and few unions have their own social assistance schemes such as emergency loans, health clinics, and consumer cooperatives. Medicare II⁶, which is targeted at communities with low welfare levels, is operational only in a few municipalities.

Management inefficiencies may not be insignificant. Administrative costs are high because of the additional need to select and monitor beneficiaries. In the case of calamity loans, no screening device is built into the targeting mechanism, so that rich and poor alike in disaster areas could access the benefits. This could also give rise to self-selection effects: to a certain extent, those with the ability to transact with ease are those from the middle and upper end of the income ladder.

Medicare II, despite being a low-cost intervention, is underfunded. Also, only small predictable costs are covered, a set up that is not economically efficient as collecting the amount needed to pay for routine checkups only to return the same amounts to the beneficiaries as the services are provided makes little sense. The Medicare II projects are unsustainable if no substantial subsidy is provided by the national government or if they are not integrated with the formal system.

Social Assistance Programs

Rice Price Subsidy Program

It should be emphasized that the NFA intervention is a general consumer subsidy and, as such, benefits even the non-poor. Figure 2 in the Appendix shows that the regional distribution of NFA rice was not sensitive to poverty incidence even with the implementation of the Rice Subsidy Program in selected provinces in 1998.

⁶ Medicare I is the main medical care program.

For instance, it shows that the share of NFA rice in total rice consumption in ARMM (Autonomous Region of Muslim Mindanao), CAR (Cordillera Autonomous Region) and Western Visayas was 14.6%, 16.3% and 6.7% respectively (well below the 22.2% average) in 1998, although the incidence of poverty in the said regions was 57.3%, 42.5% and 39.9% respectively (higher than the national average of 31.2%). In contrast, NFA rice accounted for 28.3% and 27.4% of total rice consumption in Central Luzon and Southern Tagalog (including NCR) respectively, although poverty incidence in these regions is the lowest around the country at 15.4% and 15.8% respectively.

Given this perspective, Balisacan *et al.* (Balisacan *et al.*, 2000) suggests that the provision of food subsidies to the poorer segments of society can be done more effectively through food stamps in urban areas and food-for-work programs in rural areas. He stresses that the design of these programs should be guided by certain principles and institutional arrangements, like the use of geographic targeting and incorporation of screening costs and penalties for leakage and under-coverage.

Public Workfare and Employment Program

Discussions with the project managers of the food-for-work program indicate that many laborers were willing to work for as little as PhP.60 per day compared to the program's effective wage rate of PhP.104-PhP.108 per day and the market rate of PhP.90 per day (Subbarao *et al.*, 1996). In like manner, the wage rate adopted by the Second Rural Roads Improvement Project was 25% to 30% higher than the minimum agricultural wage rate. As such, the higher effective wage rate offered by these programs attracted even the non-poor and eroded their effectiveness as a poverty alleviation measure. This suggests that there is a need to restrict employment of workers (either through means-testing or self-targeting mechanisms based on appropriate wage setting) in similar projects in the future if they are to be effective in targeting the poor.

At the same time, the program was not timed to counter seasonal fluctuations and could have competed with the agricultural activities in the area. In this regard, Subbarao noted that the program has limited impact in stabilizing consumption.

Government Microcredit Schemes

People's Credit and Finance Corporation

The PCFC's conduits are spread all over the country. Figure 3 in the Appendix shows the distribution of PCFC's total loan releases across regions. However, it shows that regions with a higher poverty incidence tend to receive a smaller portion of PCFC's total loan releases.

CIDSS

In the first instance, targeting in the CIDSS is largely done by geographical targeting. In 1995 to 1996, only municipalities belonging to the fifth and sixth income

class were eligible under the program. However, the coverage expanded in 1997 to include all municipalities regardless of income class.

On the other hand, *barangays* were selected on the basis of the results of an MBN (Minimum Basic Needs) survey, the willingness of local groups to undertake the CIDSS, accessibility, and the stability of the peace and order situation in the area. However, Bautista (Bautista, 1999) reported that only 77.5% of the selected *barangays* were in fact the poorest in the municipalities.

3.7 Accountability and Transparency

The success of social protection depends on *effective administration* and good implementation of adequately designed programs. Common operational problems among government agencies include corruption, cronyism and favoritism; inadequate information processing, storage and retrieval systems; and organizational cultures that are hostile to customer service. Where implementing organizations already have these kinds of problems, the development of an organizational reform strategy will be just as important as the development of a program reform strategy.

At the policy levels, the planning of social protection is affected by a wide range of social and economic factors and especially by the quality of governance. *Good governance* is crucial for sound macro-economic management, progressive taxation and equitable allocations of funds for social development. At the implementing levels, the impact of basic social services is reduced by governance defects such as inadequate budgets and wasteful, inefficient and unresponsive administrations. It is the poor who suffer most due to poorer access, little bargaining power and influence on local officialdom and service providers. The effects of such deficiencies in governance are exemplified by the highly unsatisfactory coverage situation in social insurance schemes. These schemes have been in force for decades in many countries but have failed to reach those most in need of protection (Ortiz, 2001).

Corruption exists on a fairly significant level in the Philippines. As is well known, corruption biases government spending away from socially valuable goods, such as social protection. Based on the World Bank study, about PhP.200 billion or 30% of the government's annual budget of PhP.600 billion goes to waste due to graft and corruption. Ill-gotten money, or money realized from corruption, is not invested nor spent in the Philippines, but is spirited out of the country and kept abroad to avoid detection and prosecution. Grand corruption may already have robbed the nation of trillions of pesos over the years. In a recent event, the state-controlled pension fund in SSS lost billions of pesos in questionable investments during the Joseph Estrada administration.

4. Development of Innovative Programs and Alternative Social Protection Schemes

Given the difficulties in funding public social assistance programs in times of crisis, there is a need to develop a more financially sustainable social protection program

for that segment of the population (about 40% to 50%) outside the ambit of SSS/GSIS, so as to ensure that they have access to a means of smoothing their income and expenditures during times of crisis.⁷ The positive experience of private microfinance institutions in the country with respect to the build-up of members' savings capacity suggests that the establishment of more Grameen-type savings/credit/insurance programs across the country will help provide assistance to members during times of crisis.

Table 2: Potential Social Protection Approaches by Economic Sector

	Formal sectors	Informal sectors
Agriculture	Agricultural insurance Disaster preparedness Child protection Active labor market programs (skills development, labor exchanges/employment services, employment generation) Passive labor market policies Social insurance Formal social assistance	Child protection Microinsurance Social funds Disaster preparedness Social assistance Active labor market programs (skills development, labor exchanges/employment services, employment generation) Price supports and limited agricultural insurance
Industry and Services	Active labor market programs (skills development, labor exchanges/employment services, employment generation) Child protection Social insurance Passive labor market Formal social assistance	Child protection Microinsurance Active labor market programs (skills development, labor exchanges/employment services, employment generation) Social funds Social assistance

Source: Ortiz, 2001

Micro-insurance offers the possibility of providing social insurance at affordable prices, expanding coverage by having a realistic understanding of the problems that communities face, and promoting community involvement. Options for the future include the pooling of different existing organizations, private-public partnerships, and an assessment of the role of reinsurance. A second approach is to devote more effort to the marketing of microinsurance, as a large percentage of the target population is still not well informed of the benefits of being insured.

However, the experience also indicates that government non-financial institutions like the PCFC are not efficient in managing directed credit programs for the poor. Moreover, the evidence to date suggests that the implementation of Grameen-type programs is better left to private microfinance institutions but with GFIs being the wholesale source of funds. In this context, the government has (1) to identify the factors that are key to the success of the programs discussed in this paper considering

⁷ Although the extension of the coverage of the Philippine national health insurance program to include indigents is laudable not only in broadening its coverage but also in improving its financial sustainability, its impact would only be limited to the health sector. Moreover, the realization of such an expansion remains to be demonstrated.

that similar programs in the past have failed, and (2) to explore ways of upscaling microcredit and microinsurance programs.

What is the appropriate role of government in support of microfinance institutions? First, government assistance is needed to provide programs to help build the capacity of these organizations in the area of financial and credit management and deposit mobilization. As these entities (particularly the NGOs) become more engaged in microfinance work, their deposit mobilization has to be integrated into their basic operation. Thus, they have to shift their focus from fundraising to deposit taking. Second, the government is also needed in providing a suitable supervisory and regulatory framework for microfinance institutions. At present, there is no agency regulating the deposit-taking function and financial intermediary function of cooperatives and NGOs. Consequently, poor people who put their savings in these organizations are not adequately protected. Third, the government should help establish performance standards for these institutions.

In the end, it should be emphasized that these Grameen-type programs have to be financially self-sufficient. That is, they should be able to recover not only their administrative cost but also the financial cost of their operations. In this regard, it is important that end borrowers pay market rates of interest.

5. Policy Recommendations

5.1 Formal Sector

A number of lessons can be learned from the major findings:

- 1. As the country adapts to globalization, some of the changes are likely to induce losses in human welfare and setbacks in social compensation.*

Globalization alongside with its opportunities for human advancement is creating new threats to human welfare. Globalization introduces the Philippines to job and income and health insecurities. Dislocations from economic and corporate restructuring, and from dismantling the institutions of social protection, have meant greater insecurity in jobs and incomes. The pressures of global competition have led countries and employers to adopt more flexible labor policies with more precarious work arrangements (United Nations Development Programme, 1999). The policy changes that are taking place are bringing in their wake consequences that adversely affect human welfare. Stalled social expenditures have a direct impact on vulnerable groups.

At the microeconomic level, as firms try to become more competitive by downsizing and adopting flexibilization measures, prospects for labor have become bleaker. Flexibilization reduces the firm's obligations to offer regular employment, thus eliminating the need for social compensation and reducing, on a wider scale, the revenue basis of statutory social security programs. Salaried workers who are retained are forced to accept cutbacks in employee benefits in order to survive.

Yet it is no longer a question of whether the changes are necessary or not. Desirable or not, the drive for global competitiveness would make them inevitable. The response therefore is not whether to adapt or not, but how.

Because their concern is on the ‘big picture’, macroeconomic policies will fail to reach poor workers. What is crucial is to ensure that human needs, specifically the welfare concerns of workers, are adequately addressed. Macroeconomic policy setting must be balanced by sectoral and targeted programs directed toward protecting sectors particularly in need. The social protection mechanisms in place have a great role to play in providing a conscious and coherent attempt to offset the adverse impact of current economic changes on wages and social compensation, and in crucial concerns such as health care, housing, education, and security for the elderly.

2. *Reforms are necessary, but many of the current initiatives may not be enough to secure the social protection of low-income workers.*

Reforms will be needed to make sure the social protection system withstands the pressures of a changing economic environment, and inability to introduce changes might mean further difficulties for workers. But initiatives being undertaken or contemplated may not be sufficient.

For example, the efforts of DOLE to forbid labor-only subcontracting – backed up by a number of court rulings favoring labor – have not deterred its practice. Poor capacity to monitor the behavior of firms has contributed to its widespread usage. DOLE has also intervened in a number of cases to enforce collective bargaining agreements. But again, its poor surveillance capacity hinders a successful attack against violators of workers’ rights.

New rounds of contribution rate hikes are often the policy response to ensure both benefits and financial solvency of statutory social insurance. But the benefits’ real value is easily eroded by inflation. Much more importantly, restructuring the contribution structure without addressing the issue of equitable cross-subsidies would still leave the poor workers shortchanged in the distribution of benefits.

3. *There are tradeoffs between giving broader coverage and maintaining long-term program viability and intergenerational equity.*

Even if it were better allocated, social security spending would not be enough to fully finance a minimum package of cost-effective social insurance services for workers. So far, there is very limited room for maneuver because of the small revenue base of statutory social security, and the need to maintain a reasonable level of reserves to preserve viability and contain any shocks to the system. A pay-as-you-go system may not thrive in a situation of high unemployment and struggling economic growth. Given such constraints, there is a pressing need to lower expectations about what can be accomplished by social security systems, so that the reduced expectations of workers can be fulfilled.

4. *Family support will remain an important part of social networks, but it should not become a substitute for meeting the social security needs of workers. The key is to increase the choices for the workers.*

Informal social security schemes operate well in communities and persist despite the existence of formal social protection systems because of the apparent willingness of households to pay at least some of the costs of social security.

There is no justification, however, for relying exclusively on family support to maintain protection for old age and against other risks. Social protection is a public good for which the government has full accountability. What is important is for the government to provide incentives that will permit households to find the most efficient mix between household transfers and government measures. For example, households can be encouraged to co-finance retirement and other insurance schemes. Giving workers a number of economically viable choices, instead of narrowing their options to extremes (reducing their access to the system, on the one hand, or allowing them a somewhat free ride on formal social security, on the other), would result in better targeting of resources and greater sensitivity of public programs to their needs.

Policy Options

Reforming the existing social compensation mechanisms would require a number of policy choices.

1. Sustained promotion of macroeconomic policies that expand levels of output, investment, and security need satisfaction.

Nothing works better than macroeconomic policies that simultaneously promote equitable economic growth, job creation, and social protection. Economy-wide adjustment programs should go hand in hand with social investment or measures intended to reinforce the positive effects of economy-wide policies. These should include productive asset-creating programs that improve incomes and create human capital by enabling targeted poor groups to actively participate in the economic life of the nation. Increases in demand-driven social protection and assistance funds must provide enough incentives by way of benefits, relative to the cost of participation, to make the beneficiaries truly active partners in economic growth.

Even in the short run, if tradeoffs in the allocation of limited resources become obvious, social safety nets will have to be provided to offset the worst effects of macroeconomic policies. As the links between growth-oriented development and social protection are being defined, it would be necessary to couple direct economic investments to expanded social security mechanisms.

2. Selective use of policy instruments for prioritizing and restructuring social insurance resources in favor of poor workers.

Several policy instruments can be used selectively to ensure low-income workers have full access to social insurance resources:

- a) *Changes in the contribution and benefit structure.* The idea is for the better off to subsidize the social security needs of the poor workers. Beringuela (Beringuela, 1993) has demonstrated that this is possible in Medicare by raising the income ceiling on contributions, lowering the payroll tax rate and increasing the amount

of benefits. Similar studies on the other social insurance components, such as Employees Compensation and Social Security, can be undertaken to demonstrate the feasibility of equitable cross-subsidization.

- b) *Automatic indexation of benefits.* Adjusting benefits is a discretionary practice, requiring approval by social security boards. Yet social security schemes are effective in cushioning the workers against the impact of economic shocks or restructuring only to the degree that there is a regular indexation of benefits (Gillion, 1993). It is fully justified on equity grounds. The equity standard may be the consumer price index, or index of net earnings. Index-linked increases are also possible in provident funds. Of course, indexation may also apply to contribution rates. Like wage indexation, benefit indexation requires a thorough study, because of its possible adverse impact on employment levels and on governmental fiscal resources.
 - c) *Targeted social compensation schemes.* To protect the most vulnerable workers, social security can be designed in a manner that discourages the better off from using it. Grosh (1998), citing medical care as an example, suggests that low-level services for poor groups may be subsidized if similar, but high-level services (e.g. health maintenance organizations, or HMOs) can be supplied by the private sector for the well-off. Housing and education can be similarly fashioned to achieve self-targeting outcomes.
 - d) *Other targeted schemes can be considered.* There are, for instance, customized options that take into account the institutional capacities existing in the targeted areas. If firms are extensive in urban areas, a program targeted through factories will have few under-coverage problems. Targeting benefits ensure a better reallocation of resources, but means testing (which relies on reported income or on other verifiable correlates of poverty) will almost surely raise administrative costs. Still, targeting is extremely helpful in reducing leakages and making sure more support is available to those most in need.
 - d) *Shifting contributions from wages to profits.* Because formal social security is wage-based, it taxes labor more than capital, and thus lowers the returns to labor. If part of the burden of social security contributions is shifted from labor to profits, this distortion in the use of factors can be minimized. A profits contribution can be enforced in lieu of a payroll contribution, but this proposition will have to be given careful study.
3. *Where possible, expansion of existing contributory social security programs to cover those displaced by flexibilization practices.*

There may be justification for significant government intervention to inhibit private action that eliminates the social compensation of displaced workers, especially those who are made worse-off by flexibilization. Unless there is preemptive action by the government, it seems doubtful whether firms can be prevented from resorting to subcontracting practices that whittle down existing social protection schemes. The government can restructure the current social security schemes to cover those who

are sidelined by downsizing moves (e.g. by offering unemployment insurance), or those who end up in contingent employment situations (e.g. by extending coverage to outworkers). A broader program of mandatory coverage even for subcontractors would eliminate unjustified social wage differentials between regular employees and contingent workers.

These changes would, as in the case of other reforms, require a reevaluation of the benefit and contribution structure aimed at achieving equity and adequacy.

4. Improvements in the efficiency of social security agencies.

SSS and GSIS can enhance their respective systems to maintain a better symmetry between benefits and contributions by increasing the incidence of benefits and GSIS by eliminating its cost burdens without skimping on important aspects of program management and implementation. Both institutions will have to improve the quality of social security services.

The justifications for a unitary institution apply to all social insurance components: wider coverage (which could include non-regular employees in the private and public sectors), and efficiency gains in collection, monitoring, fund management and claims processing.

A merger between SSS and GSIS would likely invite apprehension over practicality, ease of implementation, political feasibility, and high consolidation costs. But in reality, there may be few allocative implications in the long run.

5. Monitoring of the social security situation, especially of living standards and health of low-income workers, so that the effectiveness of reforms may be assessed and modified.

Keeping track of the human condition of workers – their health, living standards, ability to respond to risks and emergencies – is necessary to determine the impact of both economic changes and the reforms in social compensation. Monitoring and evaluation allow decision-makers to ascertain the kinds of changes necessary to keep the social protection system responsive to the needs of workers. Regular surveys that measure key social security coverage rates and outcomes in various regions may be critical for long-term effective operation of the system of social security.

6. Increasing the bargaining power of workers to give them a 'first line of defense' against setbacks in social compensation.

Fringe benefits used to be a strategic variable in collective bargaining between unions and employers. As labor is 'flexibilized', however, hard-won social security rights are being eroded. Unions must continue pressing for the preservation of social protection provisions in collective bargaining agreements, but legislation and government regulation would help immensely (especially non-unionized workers). The government needs to improve the legal framework for social protection.

Amendments to the Labor Code have been long overdue. As suggested by the Center for Research Communications (CRSS/CRC) study, the repeal should focus on

setting limits on subcontracting by delineating which forms are legally permissible. It should also include a penal clause on labor-only subcontracting. Additionally, in order to establish clear guidelines that workers can use for bargaining leverage, court decisions on labor-only subcontracting cases should be collated and published. A pro-labor Congressional initiative is crucial in making sure the rights of workers to social wages is not left out of any subcontracting arrangements. The strengthening of the regulatory powers of DOLE is just as important, so that it could effectively enforce CBAs and impose sanctions on erring employers.

Labor federations can be of big help in the effort to protect outworkers. They should cast a wider net by giving formal recognition to a permanent pool of casual or temporary workers, offering them skills training or retooling, and establishing job placements systems.

5.2 Informal Sector

Poverty Alleviation Program vs. Social Protection Program

In a country like the Philippines where the poverty incidence is high even when there is no natural disaster or economic disruption, there is an acknowledged difficulty in making a clear distinction between poverty alleviation programs and social protection programs. This is the case because existing poverty programs of the government in almost all cases serve a dual role – as an instrument for poverty alleviation and as a social protection program when crisis hits. The function of responding to crisis situations is thus often built into the existing poverty programs of various agencies. Government agencies, especially in the economic and social sectors, have therefore each maintained at least one program which they regularly implement and which can be expanded if they are called to contribute by providing services whenever any form of calamity strikes. Perhaps this is the fact because the Philippines has regularly been subject to crises of some form or other, such as typhoons, floods, El Niño, La Niña, earthquakes, volcanic eruptions, financial and even civil and religious conflicts. This is not a bad practice *per se* if one considers that it takes time to put in place the mechanics, logistics and institutional structure of a poverty alleviation program and/or social assistance program. The more successful programs require some degree of social mobilization.

Providing Basic Social Services

Earlier experience with crisis situations suggests that the poor tend to cut back on their consumption of basic social services during periods of crisis primarily because their incomes have been reduced. This suggests the need to protect the public provision of basic social services during times of crisis. Furthermore, it is important that regular modes of delivering basic social services should be enhanced during such periods to help the poor overcome the high private costs of utilizing basic public social services, like transport costs for the purpose of education. In addition to this, mechanisms to compensate for the loss/reduction in income should not be forgotten, since not all goods and services consumed by the poor are provided by the public sector.

Effectiveness and Impact of Programs

Choice of Programs

Different types of emergency and crisis situations affect various groups differently. For instance, in 1997/1998 poorer households in the rural areas, particularly farmers and fishermen, were the hardest hit by El Niño, while the wage earners in the formal sector and the construction industry were more adversely affected by the Asian financial crisis. On the one hand, the impact of El Niño was transmitted through reduced agricultural output, higher food prices and a rise in underemployment and on the other hand, the incomes of wage earners were reduced as many of them were either forced to take a cut in number of hours worked or were laid off. Consequently, it is essential to tailor-make the design of social protection programs to the nature of the specific social/economic disruption that the country faces at any point in time.

In general, the experience in the Philippines suggests that some types of social protection programs work better than others. For instance, the past performance of NFA subsidies clearly indicates that universal food subsidies are not cost-effective. At the same time, the government does not appear to have the comparative advantage in directly implementing credit-based employment programs, but private microfinance institutions (particularly those that follow the Grameen Bank approach) have been shown to help improve the welfare of their poor clients. Moreover, most of these organizations are effective in reaching the poor, especially women who are found to be good borrowers. On the other hand, public workfare programs have been proven to be an effective social safety net in other countries. However, the Philippines has had some experience here that points to some pitfalls that have to be avoided in this regard. In particular, public works programs should be timed so as not to compete with existing employment opportunities in the area. Also, the wage rate that should be used for public works programs should not exceed the market wage rate so as to enforce self-targeting on the part of the beneficiaries.

Targeting Approach

In general, it is important to recognize that the cost of administering the means test, such as beneficiary screening procedures, can be prohibitive. Thus, there is a good deal of value in designing programs with self-targeting elements. In the case of public workfare, this would involve setting wages below the market wage rate. In the case of food subsidies, this may involve choosing food items that may be classified as inferior goods or those that are consumed disproportionately by the poor. On the other hand, simulations have shown that the most effective approach, given information constraints, is the one which targets the poorest people in the poorest provinces/city (Balisacan *et al.*, 2000).

Financial Sustainability

There is an urgent need to develop more financially sustainable social safety net programs for the portion of the population that is not covered by SSS/GSIS. At the

same time, the experience of private microfinance institutions in the country tends to affirm their ability to stimulate savings amongst their members. Thus, it is suggested that the government expand its support for Grameen-type savings/credit/insurance/provident funds that provide loans and assistance to members during times of crisis.

Institutional Structures and Processes

Lead Agency

There seems to be a great need for an agency or a body that will be tasked with the coordination of the design, implementation and monitoring of social assistance programs. Such an agency can be expected to bring greater focus to social safety nets. At present, there is a tendency for the various sectoral agencies to simply expand their existing poverty alleviation programs quite independently of other agencies in times of crisis.

However, there is no need to create a new 'body'. In principle, either one of the Social Development Committee (SDC) under the National Economic and Development Authority (NEDA) and the National Anti-Poverty Commission (NAPC) may take on the lead role in the area of social safety net programs. The NEDA-SDC is the highest policy-coordinating body for all social sector programs, while the NAPC is in charge of the overall coordination of poverty-reduction initiatives. The NAPC has the advantage of having a better representation across sectors, since it includes representatives not only from other government agencies but also from basic sectors and NGOs. However, the NEDA-SDC has an edge in terms of being more established and stable as an institution.

Role of LGUs

Related to the issue of the role of the NAPC is the role of the LGUs in poverty programs. RA 8425 provides that 'the local government units through the local development councils of the province, city municipality or *barangay* shall be responsible for the formulation, implementation, monitoring and evaluation of the national Anti-Poverty Agenda in their respective jurisdictions. On the other hand, the central government shall provide:

- 1) a menu of high priority anti-poverty programs and projects from which the LGUs can select;
- 2) technical assistance to LGUs in project development and capability building; and
- 3) fund augmentation for LGUs undertaking projects with poverty alleviation objectives'.

This strengthens the view that the NAPC's advocacy role can be more meaningful by helping mediate local needs and programs and national government support through NGOs or the private sectors. The NAPC can do much in helping forge formal commitment from local chief executives as well as in instituting capacity building for the LGUs to promote the specific projects identified in support of flagship programs.

Community-based Programs

The most effective programs appear to be those where community participation is high. In this regard, social preparation appears to be key to the effectiveness of poverty alleviation programs. This is the lesson from CIDSS, as it illustrates the importance of localizing the approach, forging commitment and interfacing with the *barangay* leaders in contributing to the program's achievements and success. The ASHI case also displays the importance of clients' participation, not only in the program itself, but also in decision-making, in planning, program design and improvement.

Appendix

Table 1: Key Macroeconomic Indicators, 1981–2001

Year	GDP growth rate (%)	Fixed capital growth rate (%)	Export growth rate (%)	Inflation rate (%)	91-Day T-Bill Rate (%)	Exchange rate (Peso/US\$)	NG fiscal deficit* % to GNP	BOP** (US\$ million)
1981	3.4			17.7	12.6	7.9	-4.3	-547.0
1982	3.6	5.2	-10.7	8.7	13.8	8.5	-4.6	-1,671.0
1983	2.0	8.3	3.7	5.1	14.2	11.1	-2.1	-2,118.0
1984	-7.4	-28.7	4.8	46.8	28.5	16.7	-2.0	-1,626.0
1985	-7.2	-30.3	-15.9	23.2	26.7	18.6	-2.0	2,301.0
1986	3.5	1.3	17.2	-0.4	16.1	20.4	-5.3	1,242.0
1987	4.3	6.5	7.2	3.0	11.5	20.6	-2.5	264.0
1988	6.7	18.8	14.5	12.2	14.7	21.1	-3.0	593.0
1989	6.1	21.1	9.0	11.5	18.6	21.7	-2.2	451.0
1990	3.2	17.0	2.1	13.2	23.7	24.3	-3.5	-93.0
1991	-0.6	-14.1	6.5	18.5	21.5	27.5	-2.1	2,103.0
1992	0.4	6.6	4.3	8.6	16.0	25.5	-1.2	1,492.0
1993	2.1	8.8	6.2	7.0	12.5	27.1	-1.5	-166.0
1994	4.4	7.4	19.9	8.3	12.7	26.4	0.9	-1,802.0
1995	4.7	4.8	11.7	8.0	11.8	25.7	0.6	631.0
1996	5.9	12.1	15.4	9.1	12.3	26.2	0.3	4,107.0
1997	5.2	11.6	17.4	5.9	13.1	29.5	0.1	-3,363.0
1998	-0.5	-11.0	-20.0	9.7	15.3	40.9	-1.8	1,803.0
1999	3.4	-1.9	3.8	6.7	10.2	39.3	-3.6	3,820.0
2000	4.0	-0.1	17.6	4.4	9.9	44.2	-3.9	-512.0

* National government.

** Balance of Payments.

Source: Department of Budget and Management, various years.

Table 2: Labor Force Status

	1995	1996	1997	1998	1999	2000
Labor force (thousand)	28,040	29,637	30,265	31,278	32,000	31,688
Employed (thousand)	25,698	27,442	27,888	28,261	29,003	28,178
Unemployed (thousand)	2,342	2,195	2,377	3,017	2,997	3,510
Employment rate (%)	91.6	92.6	92.1	90.4	90.6	88.9
Unemployment rate (%)	8.4	7.4	7.9	9.6	9.4	11.1
Distribution of employed by industry group (%)						
Agriculture	44.07	41.73	40.38	39.89	39.11	37.50
Industry	15.60	16.64	16.71	15.72	15.58	15.80
Services	40.26	41.61	42.90	44.37	45.28	46.65
Industry n.e.c.*	0.08	0.02	0.02	0.03	0.03	0.04
Distribution of employed by class of worker (%)						
Wage and salary workers	45.61	47.72	48.64	49.03	49.63	51.36
Own-account workers	39.16	37.52	38.18	37.55	37.28	37.07
Unpaid family workers	15.23	14.75	13.18	13.41	13.09	11.57

* National Government Expenditures as a proportion of GNP, by sectoral classification 1975–2002.

Source: Department of Budget and Management, various years.

Table 3: Poverty Incidence

	1985	1988	1991	1994	1997	2000
Poverty incidence of families (%)						
Philippines	44.2	40.2	39.9	35.5	31.8	34.2
NCR	23.0	21.6	13.2	8.0	6.4	9.7
Outside of NCR	47.5	43.1	44.2	39.9	36.2	
Urban	33.6	30.1	31.1	24.0	17.9	20.4
Rural	50.7	46.3	48.6	47.0	44.4	47.4
Poverty incidence of population (%)						
Philippines	49.3	45.5	45.3	40.6	36.8	40.0
NCR	27.2	25.2	16.7	10.5	8.5	12.7
Outside of NCR	52.8	48.7	49.9	45.5	42.1	
Urban	37.9	34.3	35.6	28.0	21.5	25.0
Rural	56.4	52.3	55.1	53.1	50.7	54.4

Table 4: Selected Human Development Indicators

	1990	1995	2000
Basic literacy rate (%)	89.8	93.9	
School participation rate (%)			
Elementary	99.10	92.70	96.40
Secondary	54.71	62.25	72.25
School completion rate (%)			
Elementary	67.6	65.37	66.13
Secondary	71.5	69.89	70.62
Life expectancy (years)	65	67	69
Infant mortality rate	57	49	35.3
Under-5 mortality rate	80	67	54.9
Maternal mortality Rate	209	180	172

Table 5: Real Per Capita National Government Expenditures on Social Services, 1975–2002 (in 1985 peso)

	Average			1996	1997	1998	1999	2000	2001P
	75–85	86–92	93–98						
Total social services	389	519	522	573	645	625	606	604	566
Education	230	357	398	419	493	492	464	452	433
Health	70	87	56	59	69	57	58	52	45
Social welfare, labor & employment	32	28	54	68	70	63	68	77	80
Housing & community development	56	47	15	26	13	13	17	22	9

Source: Manasan, 1999

Table 6: Number and Percent Distribution of CBAs by Welfare Benefit Provisions, Philippines: 1999

Welfare Benefit Provision	Percent	Welfare Benefit Provision	Percent
A. Health care benefits		D. Supplementary Benefits (cont'd.)	
Medical services	38.2	Incentive pay	3.6
Dental services	30.7	ECOLA	0.6
Medicines/Medical allowance	9.4	Bonuses*	34.3
Hospitalization plan	32.7	Attendance	2.9
Optical allowance/service	2.9	Performance	2.3
		Signing	10.7
B. Employee Assistance		Christmas	10.7
Burial aid	40.5	13th month	28.8
Birth assistance	1.3	14th month	1.3
Canteen subsidy	0.3		
Meal subsidy	4.5	E. Terminal Benefits	
Product discount	0.3	Retirement benefits	28.5
Rice and corn allowance/subsidy	9.7	Gratuity pay	17.8
Educational assistance	4.9	Severance pay	3.9
Educational loan	7.4	Death benefit	25.2
Calamity loan	4.9		
Emergency loan	11.0	F. Leave Benefits	
Housing loan	4.5	Personal leave*	8.4
Cooperative fund	3.6	Birthday	6.5
Car loan	1.3	Enrollment	0.3
Vale	3.6	Menstrual	0.6
		Wedding	2.3
C. Well-Being/Health Promotion Programs		Emergency leave*	21.7
Recreational activities*	21.0	Death/Burial	13.6
Sportfest	7.1	Accident	11.0
Field trip	1.0	Incentive leave	0.6
Excursion	7.1	Vacation leave	53.1
Others	7.1	Sick leave	46.9
Workers education	23.3	Paternity leave	24.6
Family planning services	37.2	School/Study leave	1.0
Health and safety equipment provision*	16.8	Maternity leave	19.1
Shoes	5.2	PIB leave	1.3
Hats	2.3	Union leave (to attend seminars, conferences)	22.0
Masks	3.2	Paid time-off (for handling grievances, CBA negotiations)	1.9
Boots	1.3		
Helmet	3.2	G. Miscellaneous Benefits	
Gloves	1.3	Wedding gift	0.6
Others	1.9	Transport service	7.1
Insurance plan*	11.0	Christmas package/gift	5.2
Life insurance	6.5	Christmas party	5.8
Accident insurance	8.1	Tip/Service charge	0.6
Health fund	4.9	Labor day assistance	7.4
LMC/Productivity/Quality Circle	10.4	Uniform*	47.6
		Allowance	23.0
D. Supplementary Benefits		Clothing/Set	24.6
Per diem	0.6	Feast day assistance	0.3
Transportation allowance	1.9	Printing of CBA copy	11.3
Light/Water allowance	0.6	Use of bulletin board	17.2
Rice/Corn allowance	0.6	Provision of office space	10.4
Profit sharing	1.6	Access to office equipment	3.6
Commission	1.0		
Longevity pay	1.9		
Merit Increase	4.5		

* Details will not add up to totals due to multiple provisions.

Table 7: Job Vacancies Solicited/Reported, Applicants Registered and Applicants Placed Through Local Employment Services, Philippines (1998 – 2000)

Indicator	1998	1999	2000
Applicants placed	393,470	635,762	719,676
Public Employment Service Office (PESO)	263,747	492,680	520,238
Regular Employment	165,534	371,144	402,580
Special Program for Employment of Students (SPES)	87,816	102,532	102,963
Work Appreciation Program (WAP)	3,866	9,280	5,306
Tulay 2000	2,577	2,168	2,745
Retrenched/Displaced Workers	3,021	5,886	5,141
Returning OCWs	155	84	220
Migratory Workers	778	1,586	1,283
Employment Promotion Division (EPD)	89,830	93,362	145,900
Regular Employment	66,297	68,029	127,373
Special Program for Employment of Students (SPES)	8,741	6,921	4,597
Work Appreciation Program (WAP)	10,260	5,631	3,473
Tulay 2000	687	495	555
Retrenched/Displaced Workers	216	213	667
Returning OCWs	0	0	0
Migratory Workers	3,629	12,073	9,235
Local Recruitment Agencies	39,893	49,720	53,538

Table 8: Status of Welfare Cases (1984 – 2000)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Cases handled	1,856	5,742	8,427	13,404	8,625	7,308	6,074	5,386	5,715	5,810	6,431	6,637	7,038	7,747	4,733	5,620	5,391
Cases pending at the beginning	565	791	1,783	3,448	3,929	5,026	3,811	2,667	2,989	2,838	3,126	3,768	4,654	5,108	1,854	2,603	2,603
Cases received	1,291	4,951	6,644	9,956	4,696	2,282	2,263	2,719	2,726	2,972	3,305	2,869	2,384	2,639	2,879	3,017	2,788
Cases disposed	1,065	3,959	4,979	9,475	3,599	3,497	3,407	2,397	2,877	2,684	2,663	1,983	1,930	5,893	2,130	3,017	2,788
Regular	1,065	3,959	4,979	9,475	3,599	2,563	2,207	1,197	1,677	2,084	2,663	1,983	1,930	1,309	2,130	3,017	2,788
Inventory	0	0	0	0	0	0	0	0	0	0	0	0	0	3985	0	0	0
Archived	NB ¹	NB	NB	NB	ND ²	934	1,200	1,200	1,200	600	0	0	0	599	0	0	0
Cases pending at the end	791	1,783	3,448	3,929	5,026	3,811	2,667	2,989	2,838	3,126	3,768	4,654	5,108	1,854	2,603	2,603	2,603

1 NB: no breakdown available.

2 ND: no data available.

Table 9: National Government Expenditures on Basic Social Services and Poverty Alleviation, 1996–98

	1996	1997	1998
Level in million pesos			
Basic social services	62,074.80	81,291.25	88,888.35
Poverty alleviation	1,784.26	2,586.31	2,666.24
Basic social services plus poverty alleviation	63,859.06	83,877.56	91,554.60
Grand total expenditures	416,139.47	491,783.02	537,433.27
% of total			
Basic social services	14.92	16.53	16.54
Poverty alleviation	0.43	0.53	0.50
Basic social services plus poverty alleviation	15.35	17.06	17.04
Real per capita spending (pesos)			
Real per capita basic social services	345.67	416.65	401.84
Real per capita poverty alleviation	9.94	13.26	12.05
Real per capita basic social services plus poverty alleviation	355.60	429.90	413.89

Figure 1: Retail vs. Release Price, Farm vs. Support Price, Philippines (1995 – 1998)

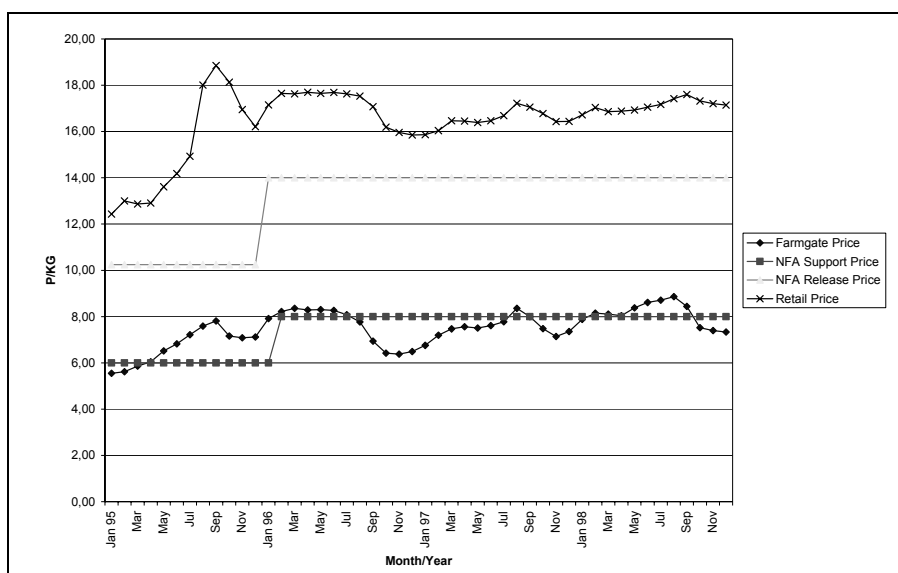


Figure 2: NFA Rice Distribution and Poverty Incidence, 1998

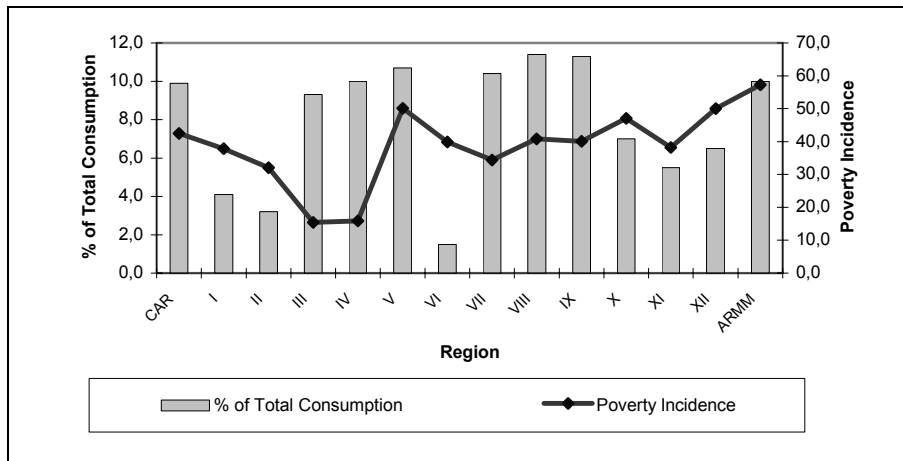
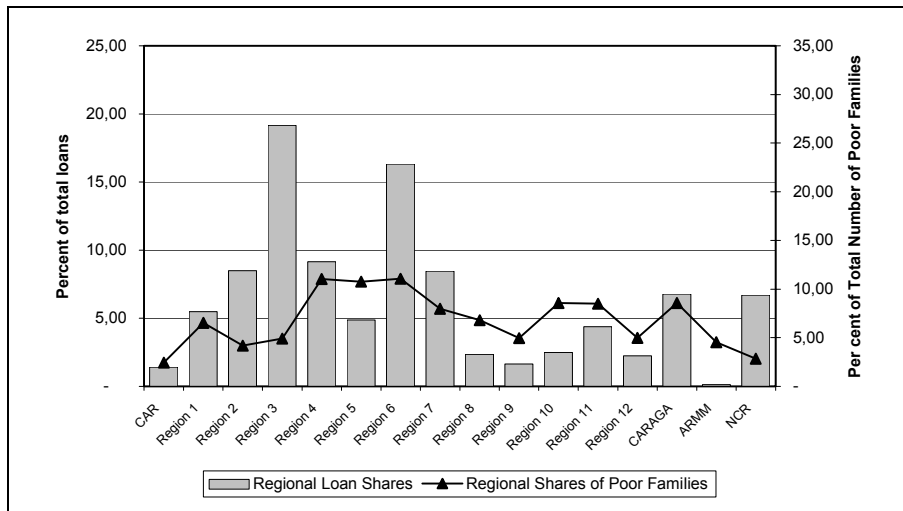


Figure 3: Share of Various Regions to Total PCFC Loans, as of end December 2000



Box 1: Benefits from Statutory Social Security

Benefits	Program Sources	
Short Term	SSS	GSIS
Sickness	PhilHealth	PhilHealth
Funeral	SS, EC	SI, OLI, EC
Maternity	PhilHealth	PhilHealth
Medical service	EC	EC
Rehabilitation	EC	EC
Long Term		
Retirement	SS	SI
Death	SS, EC	SI, OLI, EC
Disability	SS, EC	SI, EC

Legend: SS = Social security; SI = Social Insurance; OLI = Optional Life Insurance; EC = Employees Compensation

Acronyms

ADB	–	Asian Development Bank
APIS	–	Annual Poverty Indicators Survey
ARMM	–	Autonomous Region of Muslim Mindanao
ASHI	–	Ahon sa Hiras, Inc.
BLES	–	Bureau of Labor and Employment Statistics
BSP	–	Bangko Sentral ng Pilipinas
CAR	–	Cordillera Autonomous Region
CBA	–	Collective Bargaining Agreement
CIDSS	–	Comprehensive and Integrated Delivery of Social Services
CSC	–	Civil Service Commission
CSO	–	Civil Society Organization
CRSS/CRC	–	Center for Research Communications
DBP	–	Development Bank of the Philippines
DOLE	–	Department of Labor and Employment
DSWD	–	Department of Social Welfare and Development
DTS	–	Dual Training System
EC	–	Employees Compensation
ECCD	–	Early Childhood Care and Development
GBA	–	Grameen Bank Approach
GDP	–	Gross Domestic Product
GFI	–	Government Financial Institutions
GNFA	–	Government Non-financial Agencies
GOCC	–	Government-owned and Controlled Corporations
GSIS	–	Government Service Insurance System
HDMF	–	Home Development Mutual Fund
HIRAM	–	Helping Individuals Reach their Aspirations
ICOR	–	Inverse of Incremental-capital Output Ratio
ICBP	–	Industry Capability Build-up Program

ILO	–	International Labor Organization
IFAD	–	International Fund for Agricultural Development
ISSA	–	International Social Security Association
Lakas	–	Lakas ng Edsa (National Union of Christian Democrats)
LAMP	–	Laban ng Masang Pilipino
LBP	–	Land Bank of the Philippines
LGU	–	Local Government Units
MBN	–	Minimum Basic Needs
MSP	–	Microfinance Support Program
NAPC	–	National Anti-poverty Commission
NCR	–	National Capital Region
NEDA	–	National Economic and Development Authority
NFA	–	National Food Authority
NGO	–	Non-governmental Organization
NHIP	–	National Health Insurance Program
NSO	–	National Statistics Office
OFW	–	Overseas Filipino Workers
OWWA	–	Overseas Workers Welfare Administration
PCFC	–	People’s Credit and Finance Corporation
PESO	–	Public Services Employment Offices
PO	–	People’s Organization
PRESEED	–	Promotion of Rural Employment Through Self-Employment and Entrepreneurship Development
PSU	–	Public Sector Union
RMFP	–	Rural Micro-Enterprise Financing Program
RSBS	–	Retirement and Separation Benefits System
SDC	–	Social Development Committee
SEA-K	–	Self-Employment Assistance-Kaunlaran
SKA	–	SEA Kaunlaran Association
SME	–	Small and Medium Enterprise
SPES	–	Special Program for Employment of Students
SRA	–	Social Reform Agenda
SS	–	Social Security
SSS	–	Social Security System
STCW	–	Standards for Training, Certification and Watchkeeping
TESDA	–	Apprenticeship Program
TFP	–	Total Factor Productivity
TIMST	–	Third International Mathematics and Science Test
TLDC	–	Technology and Livelihood Development Center
TLRC	–	Technology and Livelihood Resource Center
TVET	–	Technical Vocational Education and Training
UPLB	–	University of the Philippines Los Banos
WB	–	World Bank

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Social Protection in Singapore

Mukul G. Asher and Revathi Rajan

Abstract

This study analyzes the social protection system of the affluent, rapidly ageing city of Singapore. It thus needs to shift the focus of its social sector policies away from housing and education to social protection in health care. The study argues that Singapore's professed philosophy of emphasizing the individual and community (mainly extended family) for providing social protection, and its near exclusive reliance on a mandatory savings scheme, to finance old age will require substantive modifications if such a shift is to not only occur, but also to provide an adequate level of social protection and health care benefits. In particular, Singapore will need to introduce an adequate tax-financed redistributive first pillar in the social security system, and a more transparent and accountable investment regime for the CPF (Central Provident Fund), which also ends the large recurrent, and highly regressive tax on CPF wealth. The paper ends with suggestions for reform.

* In early January 2002, the exchange rate of the Singapore dollar against the US dollar was US\$1 = S\$1.85.

1. Institutional Framework

This study analyzes the social protection system in the Southeast Asian city-state of Singapore. The term social protection is conventionally defined to include public social security schemes as well as schemes with similar objectives which are not required by law, but are in existence both when there is a formal wage employment relationship, and when such a relationship is absent as in the informal sector (ILO, 2000). During the last four decades of the 20th century, Singapore has evolved from a middle-income economy with a young immigrant population to an affluent and rapidly ageing society. As a result, the focus of social sector policies in Singapore will increasingly shift from housing and education to social protection and health care.

1.1 General Political, Social and Economic Framework

General Data

Table 1 (see Appendix) provides selected demographic indicators, on the basis of which the following observations may be made. The total population of Singapore in 2000 was 4.02 million, of which 3.26 million were citizens and permanent residents, the rest being foreigners who have been residing in Singapore for more than one year. Non-permanent residents thus constitute about one-quarter of the resident population, one of the highest such proportions in the world.

Being a city-state, Singapore's non-urban population is negligible, and therefore no specific policy measures for the rural population are needed. The Southeast Asian region serves as Singapore's hinterland, including the supply of labor.

Singapore's resident population growth rate has varied between 1.3% and 2.2% during the 1991–2000 period. The Total Fertility Rate (TFR), the average number of births per woman, has been below the replacement rate of 2.1 since 1975 (the TFR was 1.6 in 2000). Singapore's population will begin to decline absolutely in the next decade, unless the rate of new permanent residents is maintained or increased. But the inflow of permanent residents during the past two decades is already beginning to subtly alter the social and political dynamics in Singapore. Any substantial increase in the net inflow of permanent residents is therefore not sustainable much longer. Thus, Singapore is unlikely to be able to rely in the future on an increasing population and a growing labor force to generate higher output, and thereby help finance old age. Indeed, the rate of labor force growth is likely to be negative around 2030 (Heller, 1997). Consistent with the experiences of affluent and ageing societies elsewhere, the average annual economic growth rate has already started to decelerate considerably from around 9.0% experienced during the last three decades of the 20th century.

The median age of the population has also been increasing rapidly from 29.8 years in 1990 to 34.2 years in 2000, and is projected to be 41.2 years in 2030; while the proportion of the population over 65 years of age is projected to increase by 2.6 times from 7.3% in the year 1997 to 18.9% in 2030 (ROS, 1999, Table 1.1, p. 29). The Old Dependency Ratio (ODR), defined as residents above 65 years of age divided by residents between 15–64 years, is expected to increase from 10.4 in 1999 to 29.5 by 2030 (ROS, 1999, Table 1.1, p. 29).

The life expectancy at birth was 76 years for males and 80 years for females in the year 2000; and is expected to increase further. As the pension needs are for old age, life expectancy at age 60 (and at age 65) is more relevant than life expectancy at birth. According to the Singapore life tables based on the 1990 Census estimated by K.C. Tan of the Nanyang Technological University, the average female at age 60 and at age 65 in 1990 was expected to live for 20.9 and 17.0 years, respectively; while the corresponding figures for males were 17.5 and 14.2. The females are expected to live longer than the males, and thus require greater resources to finance old age. Females will also constitute a disproportionate number of the old-old, i.e. those over 75 years, a period when health-care requirements and expenses rise sharply.

Thus, the female population in Singapore will have on average greater needs for old-age financing than males. Their labor force participation rate (defined as the number of females who are in the labor force divided by the total number of females) in 2000 at 55.5% was lower than the rate for males (81.1%), while their average monthly earnings at S\$2,530 were only 72% of the earnings of the males (ROS, MOM 2001, Tables 1.6, 2.3 and 2.4).

Singapore's literacy rate at 92.5% in 2000 is commensurate with its level of income. In 2000, the mean years of schooling in Singapore were 8.6, while 55% of the resi-

dents aged 25 years and over had attained secondary or higher qualifications. However in 2000, 28% of the male and 21% of the female labor force had qualifications at primary school level or below (ROS, MOM, 2001, Table 1.2, p. 4).

Economic Characteristics

Singapore is among the most internationalized economies in the world, with its economy dominated by multinational enterprises and state-controlled firms. These firms have traditionally enjoyed significant control over resources and significant monopoly power. About 85% of Singapore's land area is owned by the State and there is no constitutional or common law right to land ownership in Singapore. The State auctions the land use rights, and the resulting revenue is a significant proportion of the budgetary revenue.

In 1998, there were 91,283 active companies (not including partnerships and sole proprietorships) in Singapore, of which nearly four-fifths were locally controlled companies (ROS, DOS, 2001, Table 7.1, p. 81). Among the locally controlled companies, about 40% were in commerce, and 30% were in financial and business services, while social and personal services accounted for only 3.4% of the total in 1998.

Globalization and restructuring are reducing the monopoly power of state-controlled firms in the domestic market to some extent. Nevertheless, the concentration of economic (and political) power of the state-controlled firms and their management remains substantial. As a result, economic restructuring in Singapore faces a dilemma. Any restructuring that permits competitive market forces to play a major role in the economy (such as in the housing mortgage market), and brings about substantive changes in the current methods of economic (and social) management, will have a far-reaching impact on the political economy of Singapore.

Table 2 (see Appendix) provides selected economic indicators of Singapore, on the basis of which the following observations may be made. In 2000, Singapore had a per capita GDP (Gross Domestic Product) of S\$39,585, and a per capita GNP (Gross National Product) of S\$42,212, placing it firmly in the affluent group of countries. The higher value for per capita GNP reflects the fact that Singapore derives substantial income from abroad as a net lender. Thus, it is able to transcend limitations of the domestic economy by generating income from investments abroad. The share of wages and of private consumption in GDP at around 40% however remains low.

The extremely high degree of dependence on international trade implied by the trade to GDP ratio of 3.4 suggests that Singapore is both an export and import dependent economy. Since most of the consumption items are also imported, the trade-weighted exchange rate has a significant impact on real income and consumption. Currency depreciation (appreciation) will thus affect the real value of accumulated pension wealth, and therefore welfare of the elderly as well. The exchange risk thus must be considered in assessing Singapore's pension system. This risk is similar to the risk that tax increases (or an introduction of a new tax such as the sales tax) could reduce

the real value of pension wealth by raising the price level, either on a one-time basis only or leading to a permanent rise in the inflation rate.

In the year 2000, Singapore had 360 manufacturing establishments which received fiscal incentives. They accounted for nearly half of the total domestic exports. Most of these establishments are MNCs (multi-national corporations), suggesting a high concentration in the manufacturing sector.

In 2000, services accounted for 68% and manufacturing for 26% of GDP. The share of manufacturing in total employment is around 20%. Thus, it is the services sector that provides the bulk of GDP in Singapore.

Singapore is a high-savings economy, with its gross domestic savings (GDS) to GDP ratio being 49.8% in 2000. The gross domestic fixed capital formation (GDFC) to GDP ratio was 29.5%, the difference being potentially available for net lending abroad. Most of the savings are generated by the public sector through large structural budget surpluses (IMF, 2001, p. 54), and accounting profits of state-controlled firms. The government thus controls most of the flow and stocks of savings, including mandatory savings schemes for retirement.

Labor Market Structure

Table 3 (see Appendix) provides selected indicators of the labor market structure in Singapore, on the basis of which the following observations may be made. In June 2000, Singapore had a total labor force of 2.2 million, of which 60% were males and 40% were females. The labor force participation rate in 2000 was 68.6%. The participation rate however was much lower for those above 60 years, being only 10.4% for persons 65 years and over. The proportion of labor force above 54 years was 6.1%.

As in the case of non-resident population, about a quarter of the labor force is made up of foreign workers. These workers are divided into two categories according to their monthly wage. Those earning below S\$2,500 per month are granted work permits, and are subjected to the foreign workers' levy. This levy varies according to occupation and skill levels. In the year 2000, total revenue from these levies was S\$1.5 billion, equivalent to 6.5% of the total revenue or 1.1% percent of GDP (Ramesh, 2000). These levies are a type of wage income tax, and a substantial proportion of their burden is likely to be on the foreign workers.

A significant implication for social protection is that with the foreign workers Singapore has a larger labor force to generate output, and an enhanced tax base to finance the retirement needs of its residents. However, from a wider perspective, it raises the issue of provision of social amenities in general, and social protection in particular, for the foreign workers in Singapore. There may be some merit in regional co-operation to bring about a more comprehensive set of social amenities and protection for these migrant workers.

About one-fifth of the labor force has either a diploma or a degree; while about a quarter of the labor force has an educational attainment of primary schooling and

below. The government has recognized the need to ensure that the mix of skills available is consistent with the requirements of the economy as it restructures.

The manufacturing sector accounts for about one-fifth of total employment, while the services sector including construction accounts for the rest. The average wage in 2000 was S\$3,063, with only financial services with an average wage of S\$4,931 registering significantly higher than the average wage.

It is in the services sector where the globalization forces and restructuring of the economy are making the employer-employee relationship more flexible, and increasing the opportunities for self-employment. This in turn will have an impact on the formal pension systems, which are based on relatively stable wage employment.

In June 2000, membership in the trade unions was 314,000, equivalent to 14.3% of the labor force. The manufacturing sector had a much higher degree of unionization accounting for about a quarter of the total membership.

The retirement age in Singapore was 55 years until July 1993, when it was raised to 60 years through the introduction of the Retirement Age Act (ROS, MOL, 1997, p. 1). The retirement age was raised to 62 from January 1, 1999; and is expected to gradually rise to 67 years over time. The current retirement age of 62 is however applied quite flexibly across sectors, activities, and organizations. The raising of the retirement age since 1993 has been accompanied by lower wages and statutory benefits, including contribution rates for mandatory retirement savings.

Over the next two decades, the skills-mix of Singapore's labor force will need to be more conducive to the service sector, as the role of the manufacturing sector in generating jobs is likely to decline. As many relatively less skilled are currently employed in the manufacturing sector, such a shift represents a major challenge. The average worker is also likely to be older over time, and less likely to be receptive to continuous re-training needed to sustain high employment. Implications of these likely trends are discussed in Section 2.2.

Distribution of Income and Allocation of Budget

Singapore's growth strategy of creating an environment for the MNCs and the state enterprises to earn high profits has contributed to significant inequalities in the wage structure and income distribution. Singapore had an overall Gini coefficient of 0.43 in 1974, and 0.48 in 1999 (Mukhopadhaya, 2002, p. 8).

The budgetary allocation of the Singapore government for 1997-98 and for 2000-01 is provided in Table 4 (see Appendix). The total revenue to GDP ratio of 37.2% in 1997-98 is comparable to other high-income countries, though the ratio of 30.5% for 2000-01 is towards the lower end for these countries. The government expenditure, including net lending to GDP ratio (27.3% in 1997-98 and 23.8% in 2000-01), is however much lower than in the other high-income countries.

The social sector expenditure was 6.3% of GDP in 1997-98, 6.9% in 2000-01. The government has emphasized education and housing in the social sector, while health

care, public assistance, and other social protection schemes have received negligible budgetary allocation. Indeed, unlike in other high-income countries, about three-quarters of the total national health expenditure is by individuals and employers, while only one-quarter is from the government budget. This is due to the deliberate policy design and objectives. The social security arrangements, as will be discussed shortly, are outside the budget, as these almost exclusively rely on mandatory savings. The pension payments for civil servants are also outside the budget (see section on civil service pension arrangements).

The government has traditionally generated large and persistent budgetary surpluses (see Table 4, Appendix). These were equivalent to 10.1% of GDP in 1997–98, and 9.2% in 2000–01. Whether surpluses of these magnitudes on a persistent basis are optimal from economic and social points of view is an issue that has been little debated in Singapore. Nevertheless, it is an issue that must be addressed because of the need to substantially increase allocation of resources for health and social security. Indeed, if the allocation of these components were to be comparable to those in the other high-income countries (7% to 9% of GDP for health; 5% to 8% for social security), then the level and the structure of Singapore's budgetary expenditure would also resemble that of other high-income countries.

Political System

Singapore has a parliamentary system, presided by an elected president. Parliament is based on the Westminster model, but has limited powers to overturn government legislation. The ruling regime, the People's Action Party (PAP), has been in power since 1959. The undisrupted tenure has created a one-party state and a monocentric power structure. Therefore, there is little contestability in the social, political and cultural spheres. Much of the key discussions are internalized and decisions reached are communicated through the state-controlled and guided media.

The PAP has also created a social structure to support its economic and social policies. The People's Association (PA), a government statutory board financed from the government budget, is an important supporting organization. The function of the PA is to foster public support and help implement social assistance schemes. To accomplish this role it has developed an extensive network throughout the country, providing it with requisite capabilities and information.

The fact that Singapore has persistent and large budgetary surpluses (see Table 4, Appendix) suggests that Singapore has the resources to meet the challenges of financing old age. With rapid ageing, those above 65 years are expected to be a quarter of the electorate by the year 2030, and if the near elderly are included, a substantial proportion of the electorate is likely to have an interest in allocating a larger share of GDP to health and social security. However, whether the political structures will enable them to express these preferences will depend on how the current monocentric power structure evolves to accommodate greater political and social contestability.

1.2 Availability and Quality of Data

Singapore's political economy and investments made in data collection have provided substantial capacity to generate socio-economic information relevant for analyzing public policies. However, the information is regarded as a strategic resource in Singapore, to be used by the policymakers for tactical advantages rather than as a public good. Therefore, very little of the available data is routinely provided to the general public and to the analyst.

This makes the task of analyzing public policies and institutions in general, and of social protection policies in particular, much more difficult. It also severely hampers informed public debate on social protection issues. While this may serve short-term political ends, it is ultimately a self-defeating exercise.

1.3 Existing Institutional Framework

Singapore has a monocentric power structure. As a result, the social and economic institutions are closely interwoven with the governing party. Thus, the National Trades Union Congress (NTUC), an umbrella organization constituting all the authorized trade unions in Singapore, has a symbiotic relationship with the ruling party. It has representation in cabinet, and in various bodies, including those concerned with social protection. While there is a formal arrangement for tripartite representation, such as in the National Wages Council (NWC), in practice, there is no substantive independence of those bodies from the government.

Another institution providing an array of social services such as financial assistance, job-matching programs, and day care for the elderly are the Community Development Councils (CDCs). Each CDC encompasses several parliamentary constituencies. In some cases, their activities duplicate those undertaken by other agencies in each constituency. The CDCs are headed by mayors who are political appointees. There are plans to expand their scope from social and welfare services to public education, lifelong learning and skills training, as well as culture. The operating budgets of the CDCs have increased from S\$19 million in 1997 to S\$153 million in 2001. The CDCs do have the institutional capacity, in terms of logistics and financial resources, to oversee more comprehensive and long-term social assistance schemes.

The role of civil society groups which are independent of the political structures is quite small. There is also considerable uncertainty concerning the legal scope of operations of the civil society groups. This uncertainty acts as a major deterrent, particularly as it concerns a wide-ranging discussion of social protection issues.

1.4 Traditional and Contemporary Perception of the Social Protection System

The Singapore policymakers have consistently emphasized that the best form of social security for a worker is to pursue economic and human resource policies which provide continuous high employment. The government has also strongly emphasized

the responsibility of the individual and the community (seen as an extended family) to provide for old age, including long-term illnesses.

Social assistance (or protection) schemes which undermine 'self-reliance' are deemed 'welfarist'. Financial assistance schemes, even when they are introduced, are provided on a temporary and ad hoc basis. They are mainly interim provisions designed to restore 'self reliance'. The government has through its control over the media, and other avenues, successfully restricted public dialogue on the appropriate social protection policies. The term 'welfarist' has, as a result, become quite pejorative in the political discourse in Singapore. At the same time, top policymakers and appointed or elected officials are provided with pensions and other benefits more commensurate with the defined-benefit pay-as-you-go schemes prevalent in the welfare states.

It is therefore not surprising that the financial and other support for old age in Singapore has traditionally relied on the family. Thus, according to the Ministry of Health's National Survey of Senior Citizens in 1995, two-thirds of the persons 60 years and above were not part of the formal pension system, but instead relied on the family (ROS, MOH, 1996). In 1997, 78% aged 60 and above lived with children without their spouses (because some are single or widowed, and some elderly couples may have decided to live separately with different children), while 15% (about one in six) lived with their spouses only (ROS, 1999, Tables 1–3, p. 31). Thus, family support and living with children have been the primary coping mechanisms during old age. The future elderly however will have much fewer children to rely on due to the persistent below replacement rate (TFR), while higher educational and income levels would have shifted their and their children's preferences towards greater independence and privacy. Thus, the role of informal arrangements is likely to continue to decline, and correspondingly the formal mechanisms will need to play a larger role.

It should be stressed that the main constraints in bringing about a shift to a more formal and elaborate social protection and health care system in Singapore are not due to lack of technical and professional capabilities but in the realm of ideology and politics.

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

Singapore being a city-state has an urbanized workforce, which is predominantly employed in the formal sector. The self-employed are a relatively small proportion of the total workforce, accounting for about 15% of the population. The workers in Singapore have traditionally exhibited a marked preference for formal wage employment.

2.1.2 Social Insurance and Savings Schemes: The Multi-Tier System

The Multi-Tier System

An important insight from the extensive literature on pension reform is that a multi-tier system of social security is better able to guard against various risks in old age, and help address issues of social adequacy, individual incentives, and financial market development (The World Bank, 1994; Holzmann and Stiglitz, 2001).

The Multi-tier System as an Analytical Framework

There are several ways to characterize a multi-tier system. For the purposes of this paper, a modified three-tier system of social security adapted from Fox and Palmer (2001) is used. The first tier consists of a mandatory public system financed from taxes (or earmarked social security contributions), which has a defined benefit (DB) formula, with large coverage, and incorporates social risk pooling. The primary function of this tier is to ensure a minimum income in old age, which is protected against inflation and longevity risks, and usually includes survivors' benefits features. Thus, the first tier is for poverty alleviation. The other two tiers build on the first tier to help provide adequate income to maintain customary living standards in old age.

The second tier is a defined contribution (DC) system, which in formal (or nominal) terms is by definition fully funded. The benefits thus are determined by the contributions (less pre-retirement withdrawals) and returns on investment of balances (less administrative and investment management costs, and taxes). While in a DB system the plan sponsor (government or employer) bears the investment risk, in a DC system, the individual members of the plan bear the investment risk. The third tier may be described as a tax-advantaged but usually regulated, voluntary (or semi-voluntary) savings scheme which is usually (but not always) privately managed.

It is however important to recognize that pension systems in practice are quite complex as there are many variations in the design and implementation of each tier. Moreover, details of design, and /or implementation may fundamentally alter the nature of a particular tier. Thus, the three-tier classification is only a convenient first step in the analysis.

Singapore's Social Protection System and Multi-tier Framework

Using the above three-tier framework, the most striking characteristic of Singapore's social protection system is the near exclusive reliance on the mandatory, publicly managed, portable, defined contribution (DC) tier. The main vehicle for this tier is the Central Provident Fund (CPF), mainly providing support for housing, retirement and health care. Only Singapore citizens and permanent residents are eligible for membership in the CPF.

There is a virtual absence of a mandatory tax financed, defined benefit (DB), social risk pooling and redistributive first tier. Singapore, however, does administer a Public Assistance Scheme. It is stringently means-tested, provides extremely low benefits,

and has negligible coverage. A health-care scheme started in 1993, which is targeted at the poor and indigent residents, is called the Medifund Scheme. It is a health endowment fund to assist those who pass stringent means tests to pay for inpatient as well as outpatient care. In January 2000, the government established another endowment fund called the Eldercare Fund to finance the operating subsidies for the entire range of elderly and community care. Its aim is to enhance future affordability of step-down facilities, especially for elderly Singaporeans from low- and lower-middle-income households. The government has also encouraged Singaporeans aged 61–69 to be members of the Medishield scheme by providing two years of premium rebate.

In April 2001, Singapore introduced the Supplementary Retirement Scheme (SRS), which is a tax-advantaged voluntary savings scheme open to both residents and foreigners. The SRS may be characterized as belonging to the third tier.

Singapore's pension system merits special attention because it is the only high-income, rapidly ageing country to almost exclusively rely on a mandatory savings second tier to finance old age. Since the main instrument for this tier is the CPF scheme, it is essential to examine it in some detail.

The Main Features of the CPF Scheme

The CPF is a national provident fund (NPF) established in 1955, before Singapore attained independence. It is a statutory authority under the Ministry of Manpower. The twelve-member CPF Board, appointed by the Minister of Manpower, has representation from the government, employees, employers, and the professionals. The key challenge has been to get competent and independent representation on the Board.

The CPF Board is essentially an administrative entity, with little autonomy in policy or in investment of the accumulated balances. It also has little research expertise. However, its size and scope puts at its disposal a vast amount of socio-economic data. It has invested heavily in information technology to utilize this data for administration and for social engineering purposes.

Multiple Roles of the CPF

Since 1955, but particularly since 1968, the Singapore Government has vastly expanded the scope of the CPF to achieve a wide variety of economic, social, and other objectives (see Table 5, Appendix). These include home-ownership, pre-retirement investments, a compulsory medical savings account, life, property, retirement, health-care insurance, and loans for financing tertiary education. From September 2002, another insurance scheme designed to pay modest amounts for long-term care not requiring hospitalization will be introduced.

The home-ownership goal has become a dominant and unique feature of the CPF over the years (Asher and Phang, 1997). In effect the CPF scheme substitutes for the absence of a housing mortgage market. Members are permitted to make a down

payment on public housing constructed by the government's Housing and Development Board (HDB) from their CPF balances. They may obtain mortgage on the remaining amount from the HDB at a rate which is 0.1 percentage points higher than what the CPF pays its members. The HDB obtains two types of loans from the government budget, one as contribution to public housing, and the other for mortgage financing. It then constructs the housing, and repays the loans over time.

Unless otherwise indicated, the discussion in the remaining part of this section draws on the data provided in Table 5 (see Appendix) for the 1983–2000 period.

Contribution Rate. At the time of its introduction in 1955, the CPF contribution rates were 5.0% for the employer and 5.0% for the employee, for a total of 10.0%, with a maximum monthly contribution of S\$50 (Asher, 1994, Table 1, p. 336–37). The rate remained unchanged till September 1968, when the CPF was permitted to be used to purchase public housing.

The rate structure has become fairly complex since then. Currently the contribution rates vary according to the sector of employment, citizenship or permanent residency, age, and whether officers are pensionable or non-pensionable.

(www.CPF.gov.sg/CPF_info/online/ContriRa.asp, retrieved on January 5, 2002)

Since 1968, the CPF contribution rate for the private sector and non-pensionable public sector employees (called the reference group) increased in a series of steps to reach 50% (25% each by the employer and the employee) in July 1987, with a maximum monthly contribution of S\$2,500. The rate was reduced to 35% in April 1986 to cope with the 1985 recession; but was gradually increased to 40% in July 1992, with a maximum monthly contribution of S\$2,400. The rate was once again reduced to 30% in January 1999 to cope with the 1997 economic crisis, with a monthly maximization of S\$1,800.

The CPF contribution rate since January 2001 for the above-mentioned group has been 36% (20% by the employee and 16% from the employer), with a maximum monthly contribution of S\$2,160.

Since July 1988, for the reference group, there have been lower rates of contributions for those above 55 years of age. This is designed to partly de-link wages from seniority, and to reduce the cost of hiring elderly workers. Since January 2001, the contribution rates for those between 55 and 60 years of age have been 18.5% (12.5% by the employee and 6.0% from the employer), with a maximum monthly contribution of S\$1,110. For those between 60 and 65 years, the rate is 11.0% (7.5% for the employee and 3.5% for the employer), with a maximum monthly contribution of S\$660. The rate is 8.5% for those above 65 (5% for the employee and 3.5% for the employer), with a maximum monthly contribution of S\$510.

The CPF contributions of the reference group are channeled into three separate accounts:

Ordinary Account. For those below 55 years, between 72.2% and 61.1% of the contributions is channeled into this account depending on age, with the proportion de-

creasing with age. Balances in this account can be used for housing, pre-retirement investments and other purposes.

Special Account. For those less than 55 years old, between 11.1% and 16.7% of the contributions are channeled into this account, with the proportion increasing with age. However, none of the contributions are channeled into this account for those aged over 55 years. Although balances in this account are for retirement purposes, recent reforms have permitted them to be used for certain low-risk investments.

Medisave Account. This account can be used to pay for hospital and selected outpatient services; and for health-care insurance premiums under the Medishield (and Medishield Plus) Scheme. The Medishield insurance covers only selected major illnesses. However, those with pre-existing illnesses are not provided with this insurance cover. Unlike for the other two accounts, the self-employed must contribute to this account. The contributions are channeled into Medisave with the proportion increasing with age. For those below 55 years, between 16.7% and 22.2% are channeled into this account, but for those above 55 years the proportions vary from 43.2% to 100.0%. The amount in this account cannot be withdrawn until death, when it goes to the nominee(s) of the member. From September 2002, the Medisave Account may also be used to pay insurance premiums for long-term care (see Table 1, Appendix).

The health insurance schemes (Medishield and Medishield Plus) have several limitations. First, the coverage is inadequate. As at end September 2001, the two schemes covered 1.8 million persons, leaving 44% of the resident population uncovered. Second, its scope is narrow. Many illnesses, including pre-existing illnesses are not covered, and the insurance pays only a small proportion of the total hospital bill (typically no more than 35%). Third, rapid accumulation of Medishield balances suggests that the premiums are levied on the basis of over-conservative assumptions in relation to the benefits actually paid. Thus in 2000, the insurance premiums under the Medishield were S\$95 million while the payments were only S\$56 million; at the same time the accumulated balances in this fund amounted to S\$466 million (8.3 times the payments in 2000) as at end 2000 (CPF Board, 2000, p. 54). For the July-September 2001 period, average payment per claim under the Basic Medishield was S\$662, and under the Medishield Plus was S\$1,344. These payments are quite low for catastrophic illnesses requiring hospitalization. On the positive side, Singapore has made an attempt to integrate health-care finance with retirement finance.

While the gross contribution to the CPF has been impressive, existence of a large number of pre-retirement withdrawals, particularly for housing, has meant that net contributions have been rather low. Thus, during the 1987–2000 period, about 72% of contributions were withdrawn during the year. Such a high level of withdrawals for non-retirement purposes, particularly for housing, has adversely affected the accumulation of balances as discussed in the following. This also helps to explain as to why in spite of high contribution rates and rapid economic growth, the retirement balances are inadequate. Without tackling this, and the low returns credited to members' accounts, plans for raising the CPF contribution rate to 40%, and altering the

allocation of different accounts depending on age, will remain ineffective at providing adequate retirement balances.

Investment Policies and Performance of the CPF

The Accumulation Phase. In any defined contribution (DC) scheme, investment policies and performance of provident and pension funds are a crucial determinant of the adequacy during retirement. The efficiency of the savings-investment intermediation can potentially positively affect the trend rate of economic growth, which is the primary macroeconomic variable for economic security for both the old and the young under any pension arrangement. This is because economic growth determines the resources available to be divided between the old and the young. The efficiency with which pension savings are translated into investments is also important because these savings, particularly if they are of a contractual nature, are long-term savings. These can potentially enable financing of long-term growth enhancing investments. The shift in composition towards longer-term savings, and potential to raise the growth rate can subsequently lead to higher national savings. The international experience suggests that pension reform by itself rarely increases national savings (Orzag and Stiglitz, 2001).

There are three separate pools of investment funds under Singapore's CPF system. The first and largest pool are the accumulated balances of the members with the CPF Board. These amounted to S\$90.3 billion in 2000 (56.8% of GDP) (see Table 6, Appendix). Under the CPF Act, these must be in essence invested in floating rate bonds issued specifically to the CPF Board to meet the statutory requirements. They are therefore not traded, and have no quoted values.

Since 1986, the floating rate is a simple average of a 12-month deposit (with a weight of 80%) and the month-end savings rate (with a weight of 20%) of the four major local banks, subject to a minimum nominal rate of 2.5% as spelled out in the CPF Act. The rate is revised quarterly. As a matter of administrative discretion, a small portion of the CPF balances in the Special Account for those less than 55 years of age (currently 11.1% and 16.7% of the contributions go into this account depending on age) receive an interest rate 1.5% above the normal rate. Since October 2001, balances in the Medisave Account have also received a similar differential interest rate. This underlines the administered nature of the interest rate on the CPF balances. The interest is computed monthly and compounded and credited annually.

The compounded annual real rate of return on CPF balances (nominal rate minus GDP deflator) averaged only 1.83% during the 1983–2000 period; and only 0.82% per annum for the 1998–2000 period, the period when the floating rate was introduced. During the 1983–2000 period, there were four years when the real rate was negative (see Table 6, Appendix). The average return during the period was boosted by negative inflation rates, i.e. deflation in four years during the period (see Table 6, Appendix). The above rates are quite low, and therefore they negate the potential advantage of mandatory saving in financing retirement.

The requirement that the CPF Board must invest only in government bonds has contributed substantially to the large internal debt of S\$134.4 billion (84.5% of GDP) in 2000 (see Table 6, Appendix). The CPF Board held three-quarters of the government's medium-term debt, and a little over two-thirds of the total domestic debt in 2000 (IMF, 2001, Table 16, p. 59). The government, however, has been running persistently large budget surpluses over the years (Asher and Phang, 1997; IMF, 2001, Table 12, p. 55).

Given the large budget surpluses over a considerable period, the CPF funds have not been needed to finance infrastructure or other government expenditure. The widespread belief (encouraged by the authorities) that the CPF has financed infrastructure and actual construction of public housing (as opposed to facilitating housing mortgage for members from the demand side) is thus not supported by macroeconomic analysis.

How are the balances with the CPF Board then ultimately deployed? Essentially, the Singapore Government (through the Singapore Government Investment Corporation, SGIC, and other government-investment agencies) invests these funds. There is, however, no transparency or public accountability concerning where these funds are invested, and the investment criteria and performance. The SGIC and other relevant government investment agencies are protected by statutory provisions from making any disclosure, even to the parliament. The elected president, who is mandated to protect Singapore's reserves, also has limited access to the operations of these investment agencies. It is widely believed that the balances are predominantly invested abroad in a wide variety of physical, financial, and strategic assets.

Singapore's method of investing the balances meant for retirement financing is contrary to best international practices concerning pension fund management, and has the potential for generating extremely high political risk. Such concentration of savings in the hands of non-transparent, non-accountable agencies also distorts the savings-investment process, and could lead to inefficiencies in the structure of asset returns. The method, however, is consistent with Singapore's monocentric power structure, and strong tendency towards social engineering and control.

It is likely the government earns a higher rate of return on the CPF funds than what it pays to the members, resulting in an implicit tax on the CPF wealth. This tax is likely to be fairly large and regressive as low-income members are likely to have most of their non-housing wealth in the form of CPF balances (Asher and Newman, 2001). This vividly illustrates how political risks and non-transparency can arise in an individual account system.

The de-linking of interest paid to members on their balances from the ultimate deployment and performance of the funds, and 100% investment in government securities shown on the CPF balance sheet but not in actuality, have turned the CPF into an ersatz National Provident Fund (NPF). The CPF now contains elements of a notional defined benefit (NDB) system due to administered interest rates (though quarterly adjustment of its interest rate is much shorter than typical of the NDB systems

such as in Sweden and Italy), and of the PAYG (pay-as-you-go) system as government bonds will have to be serviced by future generations of taxpayers. As a result, Singapore's nominal defined contribution (DC) system in practice has been transferred to a system more akin to the PAYG NDB system.

This should serve as a forceful reminder that in pension economics, the formal nature of the system could in practice turn out to be quite different once the details of the design and implementation are examined. It is therefore essential to be extremely careful in drawing lessons from the experiences of other countries.

The second pool of investment funds consists of insurance funds. These amounted to \$3.2 billion as at end 2000 (CPF Board, 2001, p. 54). These are invested in fixed deposits, negotiable certificates of deposit, equities, and bonds.

A significant proportion of the insurance funds are out-sourced to investment management companies. As at end 2000, about two-thirds of the insurance funds were invested in this way, while nearly one-third were in bank deposits. The investments are listed in the Annual Report (CPF Board, 2001, p. 55) at cost, and the data provided on the investments in bonds and equity is quite aggregative. The real rate of return on insurance funds was 3.24% per annum for the 1985–2000 period, and 2.74% for the 1987–2000 period (see Table 6, Appendix). While this is higher than the rates of 1.83% and 0.82%, respectively, for the CPF balances, it is still substantially lower than the real GDP growth rate (8.26% per annum for the 1987–2000 period) or the growth of average earnings (7.49%). To the extent that the return on CPF balances is less than wage (or GDP) increases, the replacement rate will be adversely affected.

The third pool of funds for investment consists of pre-retirement withdrawals by members under the CPF Investment Scheme (CPFIS). A member may open a CPF investment account with approved agent banks, which are all locally controlled banks. Moreover, all investments must be in Singapore dollars. Their charges and fees are not regulated. Individual CPF members may invest their Ordinary Account balance as well as the Special Account balance in approved assets. Only less risky investments are permitted from the Special Account. From the Ordinary Account up to 35% of the balances can be invested in shares and corporate bonds by the members directly. There is no limit on investments in shares through the approved unit trusts.

Until September 30, 2001, 100% of the profits realized (less accrued interest which would have been payable by the CPF Board on all the amounts withdrawn under this scheme) were permitted to be withdrawn by individuals. This proportion was reduced to 50% for the period October 1, 2001 to September 30, 2002 and will be zero thereafter. Realized profits on pre-retirement withdrawals will thus augment the CPF balances instead of being used at the discretion of the members.

As at September 2001, total amounts withdrawn from the Ordinary Account were S\$21.6 billion (US\$11.7 billion), while the average amount per member was S\$34,700 (US\$18,757). Little over half the amount was used for purchasing insurance policies; about 40% for stocks and loan stocks; and only 8% or S\$1.7 billion (US\$0.9 billion) was invested in unit trusts (i.e. mutual funds). Thus, CPF members have

shown an overwhelming preference for insurance policies and investing directly in stocks. The government has been fine-tuning the rules governing the CPFIS to increase the amounts invested through unit trusts. As another S\$50.4 billion (US\$27.3 billion) is still potentially available for investments from the Ordinary Account, there is considerable room for individual members to exercise investment choice. Only 22% of the members currently participate in this scheme.

The amounts withdrawn from the Special Account were S\$3.1 billion (US\$1.7 billion) as at end September 2001, while the average amount per member withdrawn was S\$10,500 (US\$5,676). Only 10% of the members have chosen to participate in this scheme. Insurance policies again attracted the bulk of the investments (87%), while the unit trusts attracted S\$404.1 million (US\$218 million) or 13% of the total. There is still an additional S\$11.2 billion (US\$6.1 billion) available for investment under this scheme.

The CPF Board appointed William M. Mercer Company in 1988 as a consultant for the CPFIS scheme for a three-year period. The mandate included tracking the performance of CPF approved unit trusts. For a three-year period ending in December 2001, 32 approved unit trusts outperformed the returns on the Ordinary Account in the CPF, while 24 unit trusts under-performed (Cua, 2001b). If a five-year period is taken, then only four unit trusts outperformed, while 25 under-performed (Cua, 2001b). Data on the volatility of the returns of unit trusts have not been provided. The returns for unit trusts do not include transaction costs which are high, because of the 5% to 7% difference between the offer and bid (buy and sell) prices. Moreover, banks operating the CPFIS scheme also levy a variety of charges.

It is the return after the transaction costs have been deducted which is relevant. Such data however are not available, as the mandate of the CPF Board does not require it. The authorities are conscious of this issue, and efforts are being made to address it. However, the small size of the unit trusts market and low level of investments per member are considered as major constraints in addressing it. To reduce the transaction costs and enable those with low balances to participate in investment diversification, the CPF Board may consider contracting out to different fund managers in a transparent and accountable manner.

The Decumulation Phase of the CPF. The decumulation phase is important because during retirement, it is essential to provide protection against inflation, longevity risks, and to ensure benefits to the survivors. Since women have a lower exposure to the labor force than men, and they earn on average less than men, but have longer life expectancy, protection against the above risks is particularly important for them.

At the time of retirement, the following options exist in a DC scheme to convert accumulated balances into a flow of income during retirement. These include lump sum payments, periodic withdrawals and annuities, or a combination of the three. It should be recognized that as the annuities are like any other financial product, the cost of purchasing annuities and therefore the rate of return from an annuity purchase varies with the market structure and the features (individual vs. joint annuity, inflation

indexing etc.) of the annuity product. The CPF permits its members to withdraw all accumulated balances over and above the required minimum sum at age 55. Although a significant proportion of CPF members have accumulated balances which fall below the minimum sum, if a member's balance is below the required minimum sum, he does not have to make it up from other sources. Children are, however, allowed to top-up parents' CPF accounts.

As of July 2001, the required minimum sum is S\$70,000 of which S\$30,000 must be in cash and S\$40,000 can be pledged in property. The minimum sum will become S\$80,000 in July 2003 with the amount equally divided between cash and property. Currently, there are no further plans to increase the minimum sum.

The CPF Board permits three options for the cash component of the minimum sum: buy a life annuity from an approved insurance company, keep it with an approved bank, or leave it with the CPF Board. In 2000, about one-sixth of the 22,829 individuals who were covered under the minimum sum scheme purchased annuities (ROS, CPF Board, 2001, p. 18). Thus, the annuities option is not popular. Under all three options, the first payment is not available until age 62, seven years after the withdrawal age.

The above arrangements effectively increased the politically sensitive withdrawal age for this component. However, the main weaknesses of the mandatory savings scheme centering on inadequate balances for many individuals, the need for protection against inflation and longevity, and the provision of survivors' benefits are not addressed by the minimum sum scheme.

Civil Service Pension Arrangements

Singapore has succeeded in shifting most of its civil servants to the CPF scheme, and thereby reducing the number of those eligible to receive pensions. This result has been achieved over a fairly long period. Thus, until 1973, all government employees were eligible to be on the pension scheme. However, in 1973 lower division government employees, and in 1987 employees at all levels were given a choice to shift to the CPF scheme. The response was mixed, with some employees electing to stay with the pension scheme, while some shifted to the CPF scheme. The main incentives for a shift to the CPF for the individual civil servant was the availability of public housing finance under the CPF scheme, and the portability feature of the CPF. Lack of inflation protection in the pension scheme acted as a push factor.

At present, only officers in the designated pensionable services (administrative service, senior police and intelligence service), and political appointees are legally permitted to be on the pension scheme. Those on the pension scheme make reduced contributions to the CPF scheme. The pension benefits, however, do not require any contributions. This arrangement therefore is even more generous than the PAYG method employed in the Western welfare states. It would be useful for the policy-makers to explain why such an arrangement, in stark contrast to Singapore's pension philosophy, is essential.

To ensure payment of pensions, the government set up a separate Pension Fund in 1995. Table 7, see Appendix, provides the available data on the operations of the pension fund on the basis of which the following may be noted: The initial contribution to the fund (S\$11.7 billion) has been made from the accumulated budgetary surpluses; and since then annual contributions are made to the fund from budgetary resources. In March 2000, the accumulated balances in the pension fund were S\$10.5 billion, equivalent to 7.3% of GDP, more than sufficient to meet future pension liabilities.

The investment policies and performance of the pension fund is not made publicly available. Thus, pension fund operations are non-transparent. The implicit nominal rate of return based on reported data (which may be incomplete) has varied between 2.9% and 4.3% during FY 1995 to FY 1999. This implies a very low real rate of return. The expenditure on pensions is around 0.5% of GDP or about 5% of total operating expenditure.

2.1.3 Social Insurance and Savings Schemes: Workmen Compensation Scheme and Retrenchment Benefit

Singapore does not have unemployment insurance or other schemes for social risk pooling. There are, however, arrangements to compensate workers for injuries or death incurred during employment and for retrenchment benefits.

Workmen Compensation Scheme

The Workmen Compensation Act, passed in 1975, regulates financial compensation for injuries incurred during employment. The Act principally covers unskilled workers and non-manual labor with an income ceiling of S\$1,600 per month. The Act outlines a detailed schedule for compensation for temporary and permanent injuries incurred during work. Guidelines for medical benefits and provisions for dependants of the deceased are also stipulated. The financial benefits for deceased workers decline with age. All employers, unless exempted by law, are compelled to insure their workmen.

The Workmen Compensation Scheme is administered by the Work Injury Compensation Department of the Ministry of Manpower. This is to ensure effective implementation of various provisions under the Act, including financial liability for injuries sustained during employment.

Retrenchment Benefit

Retrenchment benefits under the Employment Act are as follows:

No employee who has been in continuous service with an employer for less than three years shall be entitled to any retrenchment benefit on the termination of his service by the employer on the grounds of redundancy or by reason of any reorganization of the employer's profession, business, trade or work.

(Section 45, Employment Act 1968)

However, companies are not compelled by law to give retrenchment benefits to workers. All unionized companies, however, do generally pay such benefits, about a month's pay for each year of service. But in practice there is considerable flexibility in the manner in which the benefits are usually implemented in a specific situation.

2.1.4 Social Insurance and Savings Schemes: Voluntary Schemes

Singapore citizens and permanent residents are permitted to save 15% percent of their ordinary wages, bonuses and income from self-employment, each subject to a ceiling, in a voluntary tax-advantaged account under the Supplementary Retirement Scheme (SRS) introduced in April 2001. Until the SRS, there was no specific tax-advantaged voluntary savings scheme for retirement.

Thus, the SRS forms the tax-advantaged but regulated voluntary savings third tier of the social security system in Singapore. The SRS accounts can only be opened at one of four locally owned and controlled banks. Expatriate employees are also eligible and they can contribute at a rate of 35% in recognition of the fact that they are not part of the CPF scheme. Employers are not permitted to contribute to the SRS, but the self-employed may join.

The contributions and investment income (except dividend income) can be accumulated in a tax-advantaged manner until the statutory retirement age at the time of the first contribution (currently age 62). At the time of statutory withdrawals, 50% of the amount is taxed at the then prevailing marginal income tax rate – introducing additional uncertainty. The tax benefit thus varies positively with the marginal income tax rate. Pre-mature withdrawals not only attract full tax, but also a 5% penalty. As only about a third of the labor force currently is liable for individual income tax, the SRS scheme is of relevance only to the top one-third of the labor force. Foreigners must maintain any SRS account for at least ten years even if they leave Singapore earlier.

With the exception of property, real estate, and some forms of insurance, SRS contributions may be invested in a variety of assets. Withdrawals, however, must be made in cash but can be staggered over time to minimize tax or avoid adverse market conditions.

In addition to the small proportion of the labor force that is likely to find SRS of relevance, there are also other reasons for its limited impact. First, for many Singaporeans, the high CPF rates mean that the remainder of their income is committed to basic necessities. Second, since Singapore employs a source-based income taxation system, income earned abroad but not remitted to Singapore is not subject to income tax. Hence, the benefits derived from the SRS, particularly for foreigners, are limited. Third, the transaction costs of the scheme are likely to be high given limited competition, absence of regulation on fees and charges, and the small size of the unit trust industry. In addition, taxation at the withdrawal stage will reduce returns.

Fourth, the income tax payable at the time of withdrawal is on both original investment and on capital gains. Since Singapore has no tax on capital gains, under some

circumstances, such as when a person joins the SRS at a young age and has a low marginal rate of tax, and when net returns on SRS investments are high, an individual may actually get a lower rate of after-tax return under the SRS as compared to not enjoying the tax benefit. Usually, it is the taxation of capital gains that make the SRS type schemes tax-advantaged. In Singapore, capital gains, with the exception of some property transactions, are exempt from the income tax. The investment income from the investment of SRS funds is taxable at the life insurance company level, thus discriminating against the use of life insurance products by SRS participants. The SRS balances are subject to estate duty. This may adversely impact some potential members.

Fifth, the ten-year minimum period for which an expatriate must maintain balances in the SRS account could act as a hindrance for short-term expatriates. Sixth, expatriates must take into account the exchange rate risks, as their liabilities are likely to be in non-Singapore currency as well as the risk that income tax rates (and relevant transaction costs) are not known. The exchange rate risk is non-trivial given the volatility in exchange rates, external openness of Singapore's economy, and the vulnerability of the Southeast Asian region to globalization forces and to external shocks.

The impact of the SRS on overall social security arrangements in Singapore will be marginal. This is because it is not designed to address the fundamental limitations of the current social security arrangements such as the lack of protection against inflation and longevity, and the absence of a tax-financed redistributive tier. Moreover, the SRS is only likely to be of potential advantage when the annual household income is at least S\$100,000 (Cua, 2001b). Thus, for the vast proportion of resident households, the SRS is essentially irrelevant. It is therefore not surprising that only about 11,000 individuals have joined the SRS scheme. By December 2001 only 12,000 SRS accounts were opened while the gross contributions amounted to S\$157 million.

2.1.5 Social Assistance and Services: Benefits and Transfers

The Ministry of Community Development and Sports (MCDS) forwards a list of eligible recipients for social assistance to the People's Association. The PA disseminates this information to its Constituency Secretariats in the respective electoral wards. Staff at the constituency level liaise with the grassroots leaders in the individual neighborhoods to investigate the cases. Once an accurate profile of the individual(s) seeking assistance has been determined, the information is forwarded to the Citizen's Consultative Committee (CCC).

The CCC, the key decision-making body in the constituency, will determine the type of assistance required. Usually the measures are geared towards short-term relief. The schemes range from financial assistance, bursaries and scholarships to waivers on rent, utilities and conservancy charges under the following schemes: the Public Assistance Scheme (the number of recipients were 2,409, with about 7% of per capita income in 2000); the Rent and Utilities Assistance Scheme; the Short-term (Interim)

Financial Assistance Scheme; and the Small Families Improvement Scheme. In 2000, 1,041 households received conditional housing and bursary grants of S\$1.3 million, or S\$1,260 per household.

Since the inception of the Medifund, designed to assist the poor and indigent residents of all ages, the total amount distributed has been S\$75.2 million, or S\$224 per case. Thus, the total amount of subsidies is quite small. This is supplemented by a variety of ad-hoc schemes, again not necessarily targeted at the elderly.

The above set of financial assistance schemes is enlarged by secondary measures (the Economic Downturn Relief Scheme) to assist families affected by the economic recession. Voluntary welfare organizations (VWOs), self-help groups and the National Trades Union Congress (NTUC) also provide similar short- to medium-term financial assistance to families in financial distress. These provisions are largely funded by the government.

The government-sponsored self-help groups, based on ethnic lines, and the NTUC (with whom the ruling party has a symbiotic relationship) serve the needs of a specific target group. The self-help groups provide financial and social assistance (counseling for juveniles, remedial and enrichment classes for students and retraining programs for blue-collar workers) to their own ethnic group, while the NTUC serves its union members. However, these social assistance programs are not conducted in isolation. There appears to be considerable synergy and coordination in the implementation of the programs. The grassroots organizations under the PA, the NTUC, the self-help groups, the VWOs and the Ministry of Manpower recently pooled resources to form a comprehensive network to retrain and place retrenched workers into suitable jobs. Access to financial and social assistance schemes, retraining programs and job placement schemes have enabled the ruling party to cultivate and solidify political support.

2.2 Labor Market Policy

Singapore has made extensive use of manpower planning since becoming a republic in 1965. There has been close coordination between the Economic Development Board (EDB), which is the primary agency for pro-actively promoting inward investment, the Ministry of Manpower (MOM), and educational and training institutions at all levels. Thus, there is an attempt at coordination between the anticipated demand for various types of skills and supply of these skills both from domestic manpower and foreign sources. Such coordination is usually more successful at lower levels (with foreign unskilled workers providing a buffer for resident workers), than in the professions such as doctors, architects, engineers, and lawyers.

The Employment Act of 1968 (as amended) has been the main Act governing labor relations in Singapore. This Act has set very restrictive conditions and scope for trade union activities in Singapore. All authorized trade unions are a part of the NTUC with whom the ruling party has a symbiotic relationship. There is no provision for minimum wage in the Act. It is designed to ensure low-wage share and

high-income profit share in national income. The Act has succeeded in its objectives (see Table 2, Appendix).

Since the early 1970s, there has been a tripartite body comprising the NTUC, the government, and employers, called the National Wages Council (NWC), which annually has set guidelines for wage adjustments. These guidelines are routinely implemented by the public sector, but adherence to them has varied among the private sector. The NWC guidelines in some years, particularly in the 1970s and 1980s, also included changes in the CPF contribution rates. Their mandatory nature helped to adjust the wages in the directions desired by the government.

There has been a gradual shift in the wage setting, with basic (or fixed) wage accounting for a smaller proportion of the total compensation. This is designed to make the total compensation more flexible, and to prevent a significant decline in the rate of profits. Thus, in the 2001 recession, flexible elements of the compensation such as bonuses have been reduced significantly. In some cases, salary cuts have also been introduced.

The link between profitability and employment preservation and creation has been strongly emphasized. There has also been considerable emphasis on training and re-training of the workforce at all levels. Singapore has a Skills Development Fund (SDF) levy on the wage bill of those below a certain wage level to help finance training. In addition, there are other programs and tax concessions to encourage reskilling. But the allocation from the SDF has been open to criticism that the capital grants and significant proportions of the training programs supported by it have not benefited those in the lower wage group.

Singapore's policies to increasingly rely on foreign workers have tended to increase wage inequalities. This is because of the abundant supply of low-skilled workers and the foreign workers' levy, which have depressed wages at the low end. But to attract professionals, most of whom are from high-income countries, a premium above comparable wages has usually been paid. This has had an upward impact on the wages of resident professional workers as well.

The presence of foreign workers however acts a buffer for the resident workers. This permits the government to concentrate on reskilling the resident workers. But with the increasing median age of the population, such continuous reskilling may not be as effective as earlier.

The structure of the labor market is expected to undergo significant changes in the next few decades. Singapore is currently searching for a new growth strategy to compensate for its declining competitiveness in manufacturing (particularly in semiconductors), the anticipated slower growth in Southeast Asia (particularly Malaysia and Indonesia), increasing competition, including in international trade logistics from Malaysia, and its inability to widen its economic linkages with the United States and Japan. For differing reasons, its current ability to benefit from China and India, two growing mega-economies, is also fairly limited.

As Singapore searches for new growth-inducing activities, it will need to restructure the mix of skills of its labor force. But the rising median age of the population, the rigid educational and socio-political system, and the relatively low-level education of a significant proportion of the current labor force are likely to make the transition to a new skills-mix difficult. In addition, globalization forces are likely to significantly increase volatility of aggregate output and employment. There is therefore high probability that structural unemployment will emerge. This type of unemployment is less amenable to continuous retraining and matching of vacancies with available manpower, which are the focus of labor market policy currently. In particular, more formal safety nets to cope with the unemployed may be needed.

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage

Between 1983 and 2000, the membership in the CPF increased from 1.8 million to 2.9 million, while the number of contributors increased at a much slower rate from 0.92 million to 1.3 million (see Table 6, Appendix). Any individual who contributes to the CPF even once becomes a member. The contributors in a given year refer to those who have contributed at least once during a given year. The ratio of contributors to members has declined from 51.6% in 1983 to 44.2% in 2000. The contributors to labor force ratio has also declined from 70.9% in 1983 to 58.1% in 2000. This has not been a serious cause for concern till now as the foreign workers, who are not covered by the CPF scheme, account for nearly a quarter of the workforce; and most of the remainder that are non-covered are self-employed.

The self-employed can voluntarily contribute to the CPF up to the combined employer and employee contributions. They, however, must contribute to the Medisave component as discussed in the following. Since the coverage depends on the formal employer-employee relationship, high formal employment is essential for a satisfactory coverage rate. As flexibility of employment patterns, and open unemployment increases due to globalization and restructuring, the declining trend in CPF coverage may be more of a concern in the future.

3.2 Governance

The CPF Board is currently primarily an implementing agency, with the relevant policy decisions taken elsewhere in the government, particularly by the Ministry of Finance, and MOM. The monocentric power structure has meant that it has been difficult to get persons who are both independent and knowledgeable to serve on the CPF Board. The Board's priorities are determined by the government's socio-economic engineering goals at a given point in time. The strategic use of relevant information, and discouragement of independent research on social security issues have also been a part of the overall environment in Singapore.

The CPF Board also has no responsibility for the ultimate deployment of CPF balances entrusted to it. In pension fund governance, fiduciary responsibility to members constitutes a vital principle. Fiduciary responsibility in the CPF context would require its Board members to administer solely in the interest of the CPF members in maximizing net returns on the balances, net of all expenses.

The governance reform of the CPF Board, the Pension Fund for civil servants, and the occupational pension funds would need to concentrate on greater transparency of all operations, particularly of the investment portfolio. The end result would be an independent professional Board, which is mandated to give high priority to fiduciary responsibility towards the fund members and accountability. In addition, information disclosure requirements (such as valuing investments on mark-to-market basis) should also be consistent with international practices.

The CPF Board however has been quite effective in ensuring a low default rate by employers. The default rate has consistently been below 1%. The process for ensuring that the contributions forwarded by the employers are actually credited into the members' accounts is also well structured and effective.

3.3 Financial Sustainability

The criteria of adequacy primarily concerns adequate finances in retirement for poverty alleviation and for maintaining accustomed standards of living. It is conventional to assess adequacy with reference to the replacement rate, i.e. the proportion of pre-retirement income available as an annuity during retirement. The relevant replacement rate is not just at the time of retirement, but throughout the period of retirement. For the replacement rate to remain constant during retirement, protection against inflation and longevity risks is essential. Provisions for survivors' benefits are also needed.

The CPF Board estimated in 1987 (no updates since then) that the replacement rate would vary between 20% and 40% for the members, without protection for inflation and a very limited protection against longevity. Table 8 in the Appendix shows that the average balance per CPF member doubled between 1987–99, while the average monthly earnings in 1999 were 2.4 times the earnings in 1987. Thus, monthly earnings have risen faster than average balances per member. This implies a low replacement rate.

There are several reasons why the average balance in the CPF is low. First, the wage structure in Singapore is highly unequal, and this is reflected in the contributions made by the CPF members. Thus, in 1999, 51.4% of the contributors had monthly wages less than S\$2,000, while only 6.3% had wages higher than S\$6,000. Second, a high rate of pre-retirement withdrawals tied to the centrality of the real-estate sector reduces the amount available for retirement. Third, average balances are low as the real rate of return is low due to implicit tax on CPF wealth. Finally, high transaction costs due to restricted competition and the limited size of the unit trusts market have also contributed to low balances.

3.4 Gender Equity

The previous discussion of the CPF scheme suggests that it is regressive in nature. This is because only about a third of the labor force is subject to income tax; and the tax saving increases with wage income. Moreover, contributions withdrawn sooner for pre-retirement investments can potentially enjoy higher effective returns than those that are left with the CPF Board. Since the higher income groups have a greater ability to undertake early withdrawals (at least until recently when a minimum sum had to be accumulated before such withdrawals), this feature is also regressive.

The specific gender equity issues arise in Singapore's social protection system because the CPF system has no protection against inflation, and very limited protection against longevity. Since women earn less than men, but have longer life expectancy, they are more likely to find themselves with inadequate resources in old age. Thus, the absence of a social risk pooling first tier is particularly inequitable for women.

3.5 Costs of Administration

Administrative costs of the CPF system as a whole may be divided into various components. The first concerns the administrative costs reflected in the Annual Reports of the CPF Board. These costs were S\$125.2 million in 2000, equivalent to 0.95% of contributions; or 0.13% of total assets (ROS, CPF, 2000). These costs are borne by the CPF members.

The second component concerns various insurance funds. It is the members who pay the premiums and receive the coverage, both of which are formulated by the CPF Board. In 2000, the insurance premiums paid by the members amounted to S\$504.7 million, while claims were S\$116.9 million (ROS, CPF, 2000, p. 48). It is not clear as to who will be the ultimate beneficiaries of the accumulated surplus of the insurance funds of S\$3.2 billion as at the end of 2000.

The third component concerns the administrative and management costs associated with the CPFIS scheme. These costs are both of a fixed and variable nature. While there has been little research concerning the magnitude of these costs, they are likely to be significant. The share of these costs as a percentage of total investment is likely to vary inversely with the size of the investment. The fourth component concerns the cost of converting accumulated balances into an income stream during the decumulation phase.

The total administration costs comprise all four components. These costs need to be analyzed for a given year as well as over a time period to assess the efficiency with which the CPF scheme is administered in Singapore.

From the point of view of economic resource use, costs of compliance with the CPF system are also relevant. These costs arise both for individuals and companies. For the individuals, the costs of complying with the Medisave, CPFIS, housing and education schemes are likely to be particularly important.

The compliance costs for 88,576 active employers as at 30 September 2001 (<http://www.CPF.gov.sg>) arise due to the charges needed in their accounting systems to conform to the requirements of the CPF Board.

There has been remarkably little systematic research done in Singapore on the administration and compliance costs of the CPF system. Further elaboration of these aspects is therefore not feasible.

3.6 Efficiency

There are several important ways in which the current pension arrangements affect efficiency. The first concerns the efficiency of the savings/investment process. Under current arrangements, the government controls the bulk of the nation's flow and stock of savings. The investment of CPF savings in non-marketable government bonds does not permit these savings to be allocated according to market forces, and hampers the development of financial and capital markets. The subsequent use of these savings by government investment companies in a non-transparent and non-accountable manner is contrary to good governance practices of pension funds; and they have the potential to undermine investment discipline.

The second important way in which the efficiency is affected concerns the use of the CPF scheme as a substitute for the housing finance market. The government's control over the supply and demand for the housing market has the potential to lead to inflexibility and lead to over-consumption in housing (Asher and Phang, 1997). Given the centrality of the real-estate sector in the economy, inflexibility and over-consumption have become serious constraints in restructuring the economy. The transition to a genuine market in the housing and real-estate sector, however, will need to be undertaken carefully. This is because housing wealth is a major element of total wealth of most households in Singapore, and property values have been used as collateral in bank loans by individuals and businesses.

The need for greater efficiency in resource allocation has increased as demographic trends and more moderate growth are likely to reduce Singapore's overall savings rate considerably. Not only will rapid ageing increase the consumption share, but it will also reduce public sector saving through increased expenditure, particularly for health care (Heller, 1997). As a result, the need for greater efficiency in translating savings into growth-enhancing productive investments has become more urgent.

4. Policy Recommendations

The CPF scheme has come to occupy a pre-dominant position in the pension arrangements in Singapore. The recent parametric reforms in the CPF scheme, such as paying a higher administered rate of interest on Medisave and Special Accounts and altering the share of contributions allotted to each account, and the introduction of the SRS, do not however address the main limitations of the current arrangements. These limitations include inadequate balances at retirement, lack of inflation and longevity protection, lack of survivors' benefits, lack of transparency and account-

ability, particularly in the area of investment management, inadequate emphasis on fiduciary responsibility compared with socio-economic engineering objectives, and virtual absence of a tax-financed redistributive tier. The limited nature of health insurance, and the issue of long-term care for the aged also pose major challenges to policymakers.

It is clear from the discussion in this paper that more fundamental reforms are needed to provide economic security to the elderly in Singapore. Such reforms will require a change in the mindset, and a paradigm shift in the philosophy of social security. It will also require substantive participation of all stakeholders in the society.

To achieve the above objectives, pension reforms incorporating a redistributive first tier are needed. Other requirements include substantive reforms in the health financing and health insurance systems to systematically introduce social risk pooling and to increase the share of financing through the government budget (currently estimated to be around a quarter of the total) (Lim, 2001), and making the CPF system a genuine DC fully funded scheme.

An illustrative set of measures for reforming the CPF scheme may include the following. An initial step would be to eliminate the implicit tax on CPF balances. In the short term, this can be accomplished by crediting the weighted average of returns of government investment companies, which are actually making decisions on the deployment of the CPF funds.

In the medium term (two to three years), more secure arrangements will be needed. These include the following. First, an establishment of a Provident Funds and Pensions Authority (PFPA) with an independent Board of Directors, whose fiduciary responsibilities will be in line with best international practices in pension governance.

If de-linking the CPF scheme from housing finance is considered too risky, then the CPF scheme could be formally divided into three components: housing, health care, and retirement. The independent PFPA can be given the responsibility for retirement funds, with a similar authority set up for health care financing. The existing CPF Board may continue to be in charge of housing finance.

Second, the investment policies and performance of the PFPA should be completely transparent, and de-linked from government investment companies. The investments should be mark-to-market and publicly available.

Third, all investment returns must be made known and fully credited to the account of the members.

Fourth, individuals may be given limited options (including default options when no choices have been indicated) by the proposed PFPA's investment management committee. A member may divide the balances among the options on a periodic basis. This will minimize transaction costs and permit individuals to adapt the investment portfolio for differing risk/return profiles.

Fifth, the PFFA should encourage the development of the annuity markets; if necessary, through making such purchases mandatory. There is also a strong case for ensuring that tax treatment of benefits does not distort choices among pension products and pension providers.

It should be stressed that even if the reforms suggested are undertaken, the mandatory savings second tier by itself will not provide adequate retirement. The other two tiers will still need to be developed.

It does appear, however, that the prospects for pension reforms designed to bring about a multi-tier system in Singapore along the lines sketched above are not promising, primarily because the CPF scheme has become an integral part of the social-economic-political management in Singapore. There is therefore considerable resistance to any substantive changes in the CPF scheme. Given the above, and due to its size, the transition to any new arrangements which are substantively different will not be smooth or without generating winners and losers.

The policymakers, however, recognize that their legitimacy and authority depends to an important extent on fulfilling the material needs of the population, and that it is by now apparent that the current pension arrangements are inadequate for providing financial security in old age. Consequently, accelerated parametric reforms may well occur, such as refining allocation of CPF contributions to different accounts, raising administered interest rates credited to members accounts, liberalizing various investment and other schemes, and expanding the practice of transferring general budgetary resources to the individual members' CPF accounts. Fundamental reforms, which address the main weaknesses of the current arrangements, will however have to wait for substantive reforms in the political economy of Singapore.

Appendix

Table 1: Singapore Demographic Indicators, selected years

Indicator	Unit	1990	1995	2000
Mid-year population				
Total ¹	Thousands	3,047.1	3,525.6	4,017.7
Resident (population growth rate) ²	Thousands	2,735.9 (2.2)	3,014.6 (1.8)	3,263.2(1.3)
Non-resident as % of total	Percent	10.2	14.5	18.8
Non-resident as % of residents	Percent	11.4	17	23.1
Population density	Per square kilometer	4,814	5,445	5,885
Median age (residents)	Years	29.8	31.9	34.2
Sex ratio (residents)				
Males per 1000 females	Number	1027	1010	998
Infant mortality rate				
Per 1000 live-births	Number	6.6	3.8	2.5
Total fertility rate (TFR)				
Per 1000 female population aged 15–44 years	Number	1,827	1,670	1,586
Dependency ratio ³	Percent	40.8	41.5	40.4
% population above 60 years	Percent	9.0	9.7	10.7
% population above 65 years	Percent	6.0	6.5	7.3
% population above 75 years	Percent	2.2	2.3	2.5
Life expectancy at birth				
Males	Years	73.1	74.2	76
Females	Years	77.6	78.6	80
Total	Years	75.3	76.3	78
Literacy rate ⁴	Percent	89.1	90.8	92.5
Mean years of schooling	Years	6.6	7.7	8.6
Percent with secondary or higher qualifications ⁵	Percent	36.7	47.5	54.7

1 The total population comprises Singapore residents and foreigners staying in Singapore for at least one year.

2 Residents comprise Singapore citizens and permanent residents.

3 Residents under 15 years and those above 65 years divided by residents aged 15–64 years.

4 Residents above 15 years.

5 Refers to non-students.

Source: Calculated from Republic of Singapore, Department of Statistics, 2001. *Yearbook of Statistics Singapore 2001*, Tables 1.8, 1.9, and 1.11.

Table 2: Singapore Macroeconomic Indicators, selected years

Indicator	Unit	1990	1995	2000
Gross Domestic Product (GDP)	Million S\$	66,464.4	117,768.4	159,041.8
Per capita GDP	S\$	21,812	33,404	39,585
Gross National Product (GNP)	Million S\$	68,288.4	121,351.3	169,596.5
Per capita GNP	S\$	22,411	34,420	42,212
Share in GDP				
Manufacturing	Percent	27.0	24.8	26.5
Services	Percent	66.3	68.1	67.9
Others	Percent	6.6	7.1	5.6
Share of wages in GDP	Percent	43	42.9	42.2
Share in expenditure on GDP				
Private consumption	Percent	46.4	41.5	40.0
Government consumption	Percent	10.2	8.6	10.5
Gross fixed capital formation	Percent	32.5	33.9	29.5
Net exports of goods and services	Percent	6.9	16.0	18.5
Others	Percent	4.0	0.0	1.5
Gross Domestic Savings as % of GDP	Percent	43.6	50.7	49.8
Overall budget balance as % of GDP	Percent	10.8	13.2	3.0
Inflation indicators				
Consumer Price Index	Percent	3.4	1.7	1.3
International trade (goods and services)				
Exports as % of GDP	Percent	184.0	178.2	179.9
Imports as % of GDP	Percent	177.1	162.3	161.4
Total international trade as % of GDP	Percent	361.1	340.5	341.3
Visitor arrivals	Million	5.3	7.1	7.7
Average length of stay	Days	3.8	3.7	3.2

Source: Calculated from Republic Singapore, 2001. *Yearbook of Statistics Singapore*, 2001, various tables. Asher, 2002, Table 2.

Table 3: Singapore Labor Force Indicators, June 2000

Category	Units	
Total labor force	Thousands (percent)	2,192.3 (100.0)
Male		1,342.3 (60.4)
Female		868.0 (39.6)
Persons above 54 years		133.1 (6.1)
Labor force participation rate	Percent	68.6
Male		81.1
Female		55.5
Persons between 55–59 years		51.7
Persons between 60–64 years		31.7
Persons 65 and over		10.4
Educational attainment of labor force	Percent	100.0
Primary and below		25.1
Lower secondary		13.0
Secondary		25.3
Post secondary		15.5
Diploma		6.1
Degree		15.0
Employment share by industry and average monthly earnings	Percent (Singapore dollars)	100.0 (\$3,063)
Community, social and personal services		21.6 (\$3,336)
Manufacturing		20.8 (\$3,036)
Wholesale and retail trade		13.7 (\$2,721)
Construction		13.1 (\$2,333)
Business and real estate services		10.8 (\$3,281)
Hotels and restaurants		9.5 (\$1,332)
Transport, storage and communications		9.4 (\$3,105)
Financial services		4.6 (\$4,931)
Others		0.5 (NA)
Membership in trade unions	Thousands	314.5 (14.3)
Manufacturing sector		82.7 (26.3)

Source: Calculated from Ministry Manpower, Republic of Singapore, *Singapore Yearbook of Manpower Statistics*, 2001, Various Tables.

Table 4: Budgetary Allocation by Functional Expenditure Categories, 1997/98 and 2000/01, Amount in Million of Singapore Dollars (Percent of Total Government Expenditure and Net Lending)

	Expenditure category	1997/98	2000/01
			Revised estimates
1	Education		
	Current expenditure	3,348 (8.8)	4,289 (12.7)
	Capital expenditure	1,102 (2.9)	1,512 (4.5)
	Current plus capital expenditure	4,450 (11.7)	5,801 (17.2)
	As % of GDP	3.1	4.1
2	Health		
	Current expenditure	896 (2.4)	1,086 (3.2)
	Capital expenditure	274 (0.7)	138 (0.4)
	Current plus capital expenditure	1,170 (3.1)	1,224 (3.6)
	As % of GDP	0.8	0.9
3	Other social and community services		
	Current expenditure	1,236 (3.2)	1,329 (3.9)
	Capital expenditure	1,930 (5.1)	2,612 (7.7)
	Current plus capital expenditure	3,166 (8.3)	3,941 (11.7)
	As % of GDP	2.3	2.5
4	Total social sector		
	Current expenditure	5,480 (14.4)	6,704 (19.8)
	Capital expenditure	3,306 (8.7)	4,262 (12.6)
	Current plus capital expenditure	8,786 (23.1)	10,966 (32.4)
	As % of GDP	6.3	6.9
5	Economic services		
	Current expenditure	708 (1.9)	2,916 (8.6)
	Capital expenditure	3,565 (9.4)	3,282 (9.7)
	Current plus capital expenditure	4,273 (11.2)	6,198 (18.3)
	As % of GDP	3.0	3.9
6	Internal security and defense		
	Current expenditure	7,235 (19.0)	8,045 (23.8)
	Capital expenditure	1,325 (3.5)	1,590 (4.7)
	Current plus capital expenditure	8,560 (22.5)	9,635 (28.5)
	As % of GDP	6.1	6.1
7	General administration		
	Current expenditure	658 (1.7)	849 (2.5)
	Capital expenditure	767 (2.0)	294 (0.9)
	Current plus capital expenditure	1,425 (3.7)	1,143 (3.4)
	As % of GDP	1.0	0.7
8	Total current expenditure	15,621 (41.0)	20,932(61.9)
	As % of GDP	11.1	13.2
9	Total capital expenditure	8,963 (23.5)	9,428 (27.9)
	As % of GDP	6.4	5.9
10	Net lending	13,508 (35.5)	3,456 (10.2)
	As % of GDP	9.6	2.2
11	Total government expenditure and net lending	38,092 (100.0)	33,816 (100.0)
	As % of GDP	27.2	23.8
12	Total revenue	52218	48,490
	As % of GDP	37.2	30.5
13	Overall surplus/deficit	14,126	14,674
	As % of GDP	10.1	9.2

Sources: Calculated from IMF, 2001, Tables 13 and 15, pp. 56 and 58; and ROS, DOS, 2001.

Table 5: Various Schemes Under Singapore's CPF System

Type	Scheme	Year introduced
Home ownership	Approved Housing Scheme	1968
	Approved Residential Property Scheme	1981
Investment	Singapore Bus Services (1978) Ltd Share Scheme	1978
	Approved Investment Scheme (AIS)	1986 ¹
	CPF Investment Scheme (CPFIS) – replacing AIS	1997 ²
	Approved Non-Residential Properties Scheme (ANRPS)	1986
	Share-Ownership Top-Up Scheme (SOTUS)	1993
Insurance	Home Protection Insurance Scheme	1982
	Dependents' Protection Insurance Scheme	1989
	Medishield Scheme	1990
	Eldershield Scheme	2002
Others	Company Welfarism through Employers' Contribution (COWEC) Scheme ³ (Discontinued 1.1.99)	1984
	Medisave Scheme	1984 ⁴
	Minimum Sum Scheme	1987
	Topping-up of the Minimum Sum Scheme	1987
	Financing of Tertiary Education in Singapore	1989
	CPF Top-up Scheme	1995

Note: Provisions governing most of these schemes have been revised since their introduction, in some cases substantially, such as for the CPFIS and Medisave.

- 1 From October, 1993, divided into the Basic and Enhanced Investment Schemes.
- 2 Since January 1, 1997, CPFIS has replaced the Approved Investment Scheme, thus eliminating the distinction between the Basic and Enhanced Investment Schemes. The scheme has been liberalized substantially since then in terms of types of investments permitted, and the proportion of balances with the CPF which can be used.
- 3 Since January 1, 1999, there have been no new contributions to the COWEC fund. The scheme has therefore been effectively discontinued.
- 4 From 1993, self-employed persons have been required to contribute to the Medisave scheme.

Source: *The CPF Annual Reports*, various years.

- a) The housing schemes are: Approved Housing Scheme introduced in 1968, and Approved Residential Property Scheme, introduced in 1981.
- b) Under Section 15, the main withdrawals are for retirement, death, disability, and leaving Singapore and West Malaysia permanently.
- c) The Medical Schemes are: The Medisave Scheme introduced in 1984, and the Medishield Scheme introduced in 1990. However, only Medisave and Medishield withdrawals are included. Medishield Premiums are in the "other" category.
- d) The 'Others' category mainly includes various pre-retirement investment schemes, Medishield Premiums and loans for financing tertiary education in Singapore.
- e) The high proportion of withdrawals for this category was due to the partial divestment of Singapore Telecom, a government telephone monopoly.
- f) The implicit interest rate is calculated as follows: Total interest amount credited to members as shown in the CPF Board's Annual Reports, divided by the average of the beginning and the end balances of the CPF members during the year.
- g) The real rate of return is estimated as the difference between the implicit interest rate and the GDP deflator.

**Table 7: Singapore Operations of the Pension Fund¹, FY 1995–98²
(million of Singapore dollars)**

Category	FY95	FY96	FY97	FY98	FY99 (Revised)
Pension fund balances (end period)	11,462.00	11,770.30	11,654.80	10,681.8 ⁶	10,540.90
As % of GDP	9.5	9.0	8.2	7.7	7.3
Contributions from the Consolidated Revenue Account	11,699.60	567.1	172.9	141.9	523.1
Investment income ³	343.4	402.9	413.8	483.9	308.8
Implicit nominal rate of return ⁴	2.9	3.5	3.5	4.3	2.9
Gratuities and pensions ⁵	542.4	613	647.8	730.6	763.0
As % of operating expenditure	4.7	4.3	4.6	5.0	5.5
As % of GDP	0.45	0.47	0.45	0.53	0.53
Allowances, subsidies and compensation	41.6	48.8	53.9	58.4	65.4

1 The pension fund was set up in 1995.

2 Singapore's Financial Year (FY) is April-March. Thus FY 1995 refers to April 1, 1995 to March 31, 1996.

3 As the accounting for the pension fund is on a cash basis, it may be assumed that only realized income is included in investment income. The implicit nominal rate of return thus is not an appropriate measure of investment performance.

4 Calculated as investment income divided by average balances (beginning period plus end period balance, divided by two).

5 It should be noted that since 1995, each pensioner has an option to receive the pension as a lump sum, or a monthly payment, or a combination of the two. The details of each option chosen by the pensioners are not available.

6 In 1998, \$ 806.6 million was transferred from the pension fund to the SAVER Fund.

Source: Calculated from the Republic of Singapore, The Budget, various years, and Republic of Singapore, Yearbook of Statistics, various years.

Table 8: Singapore Average Balances Per Member and Average Monthly Earnings, 1987–2000¹

(1)	(2)	(3)	(4)	(5) = (4) / (2)	(6) = (4) / (3)
Year	Average monthly earnings (excluding employer's CPF contributions) ² (\$)	Average monthly earnings (including employer's CPF contribution) ³ (\$)	Average balance per member (\$)	Average balance per member/average monthly earnings (excluding employer's contribution)	Average balance per member/average monthly earnings (including employer's contribution)
1987	1,176	1,335	15,458	13.1	11.6
1988	1,273	1,426	15,790	12.4	11.1
1989	1,398	1,608	16,313	11.7	10.1
1990	1,528	1,773	18,504	12.1	10.4
1991	1,669	1,969	20,421	12.2	10.3
1992	1,804	2,129	22,191	12.3	10.4
1993	1,918	2,282	21,361	11.1	9.4
1994	2,086	2,503	23,059	11.1	9.2
1995	2,219	2,663	24,640	11.1	9.3
1996	2,347	2,816	29,503	12.6	10.5
1997	2,480	2,976	28,633	11.5	9.6
1998	2,740	3,014	30,419 ⁴	11.1	10.1
1999	2,813	3,151	31,257	11.1	9.9
2000	3,063	3,415	31,354	10.2	7.8
AACGR ⁵	7.642	7.492	5.591	NA	NA

1 Note that anyone who contributed to CPF at one time or the other is a member. Hence, the number of members in any given year does not refer strictly to all those stationed in Singapore. Some who are not citizens and permanent residents may not come back to Singapore to spend their retirement. Those who are permanent residents may be working abroad and hence are not active contributors. In general, the 'members' are a fluid pool and strict comparability of the annual data on members is not expected.

2 Inclusive of all remuneration received before deduction of the employee's CPF contributions and individual income tax. They include basic wage, overtime payments, commissions, allowances and other monetary payments, annual wage supplement, and variable bonuses.

3 This is calculated as the amount in column (2) + employer's CPF contribution (amount in column 2). This is only an approximation and is biased upwards due to the wage ceiling for the employer's contribution.

4 For males, the average balance in 1998 was \$33,765, for females, \$26,846.

5 AACGR: Average Annual Compound Growth Rate.

Source: Average Monthly Earnings From Republic of Singapore, Ministry of Manpower, *Singapore Year Book of Manpower Statistics*, 2001, Table 2.2, p. 21. and *Year Book of Statistics*, 2001.

Acronyms

AIS	–	Approved Investment Scheme
ANRPS	–	Approved Non-Residential Property Scheme
CCC	–	Citizen's Consultative Committee
CDC	–	Community Development Council
COWEC	–	Company Welfarism through Employers' Contribution
CPF	–	Central Provident Fund
CPFIS	–	Central Provident Fund Insurance Scheme
DB	–	Defined Benefit
DC	–	Defined Contribution

EDB	–	Economic Development Board
GDFC	–	Gross Domestic Fixed Capital
GDP	–	Gross Domestic Product
GDS	–	Gross Domestic Savings
GNP	–	Gross National Product
HDB	–	Housing and Development Board
MCDS	–	Ministry of Community Development and Sports
MNC	–	Multi-National Corporation
MOM	–	Ministry of Manpower
NDB	–	Notional Defined Benefit
NPF	–	National Provident Fund
NTUC	–	National Trades Union Congress
NWC	–	National Wages Council
ODR	–	Old Dependency Ratio
PA	–	People's Association
PAP	–	People's Action Party
PAYG	–	Pay-As-You-Go
PFPA	–	Provident Funds and Pensions Authority
SDF	–	Skills Development Fund
SGIC	–	Singapore Government Investment Corporation
SOTUS	–	Share Ownership Top-Up Scheme
SRS	–	Supplementary Retirement Scheme
TFR	–	Total Fertility Rate
VWO	–	Voluntary Welfare Organization

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Social Protection in South Korea

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Abstract

Korea has grown rapidly since the early 1960s, and its GNI (Gross National Income) per capita was at US\$8,910 in 2000, thereby classifying it as one of the upper middle-income countries. Other standards of living have also improved greatly as seen by positive changes in the literacy rate, school enrollment, the infant mortality rate, life expectancy, and other human development indicators. Political conditions are better and the Korean people enjoy most democratic rights.

Despite these improvements in socio-economic and political conditions, benefits are not equally distributed among the different social groups and the population. In particular, women, the elderly, and the youth are vulnerable to various risks. Although the traditional social protection system has been expanded and strengthened in the aftermath of the 1997 financial crisis, the current system still has many problems. To cite a few: exclusion of many socially weak from social security and/or social assistance benefits, insufficient levels of support and lack of an effective connection of social security and social assistance programs.

These problems arise partly due to strict eligibility, lack of coordination between government departments themselves and with NGOs, and insufficient financial resources – or government budgets, which, in turn, are caused by administrative inefficiency, inability to secure honest tax reports, and over-commercialization of health care. Underlying these problems, though, is the government's philosophy of social protection and social policy. The current social protection system in Korea is based on the dual principles of residualism and work-linked welfare, emphasizing the precedence of individuals' and/or their families' responsibility over the government's responsibility for social assistance and the obligation of the persons concerned (i.e. unemployed) to seek a job. This dual system is compelled partly by financial difficulties and partly by prevailing perceptions held by government decision makers and by the majority of the populace.

Reforming the fundamentals of the current system presents a formidable challenge: those undertaking the task must implement a new system, which will take much time. In the meantime, therefore, efforts have to be made to improve the current system by persuading key decision makers as well as the public to accept new principles and/or philosophies of the social protection system and by making up for its deficiencies.

Since most of the decision makers and the populace are preoccupied with traditional ideas of social protection, NGOs must play a leading role, and cooperate towards this common goal.

* The exchange rate of the won to the US dollar at the time of writing was US\$1 = 1400 won.

1. Institutional Framework

1.1 General Political, Social, and Economic Framework

The Republic of Korea was one of the least developed countries in the 1960s. However, after three decades of industrialization, it has grown so rapidly that its GNI per capita had risen to US\$10,823 in 1995, making it the thirteenth largest trading nation in the world and classifying it as an upper middle-income, fast industrializing country. The financial crisis in 1997 pulled down its GNI below US\$7,000 in 1998, but as the economy recovered from the recession, GNI per capita began to rise again, reaching US\$8,910 in 2000 (see Table 3, Appendix).¹

In fact, economic output grew 9.4% annually during the 1980–90 period and despite the financial crunch in 1997, 5.7% annually during the 1990s (see Table 3, Appendix). In 1996, Korea was granted membership in the OECD in recognition of its economic achievement.

Rapid economic growth has made the Korean populace an affluent society. An absolute majority of the populace reside in urban areas (see Table 1, Appendix), and service industry sectors have expanded rapidly alongside manufacturing sectors (see Tables 3 and 5, Appendix).

As of 1999, the population of Korea amounted to 46.4 million, increasing by 1.1% each year during the period 1975–99. Although the infant mortality rate has steadily decreased and life expectancy at birth has progressively risen, the projected rate of population growth is expected to increase very slowly due to the low fertility rate. This trend is reflected in the age structure: While the age group of 15 years old and below is expected to decrease to 17.2% of the total population in 2015, dropping from 21.2% in 1999; the age group of 65 years old and above will increase to 11.6% in 2015, from 6.8% of the total population in 1999. As a consequence, the total dependency ratio (people aged 0–14 and 65+, as a percentage of those aged 15–64) will skyrocket to 53.3% by 2030, from 39.3% in 2000. In particular, the old dependency ratio, estimated to reach 27.7% in 2030, will pose a serious challenge to the current old-age pension scheme (ILO 2000, see also Table 1, Appendix).

A rising proportion of students have enrolled in higher educational institutions, and more women have a higher educational attainment (see Table 2, Appendix) and participate in economic activities (see Tables 6 and 7, Appendix).

A spectacular economic growth is usually attributed to several concomitant factors: an export-oriented industrialization within the state-directed government-big conglomerate-bank nexus, an expanding world economy along with a relatively well protected domestic market, a cheap and docile workforce with a relatively high level

¹ The Korea National Statistics Office gives different figures for GNI per capita; see Table 3 in the Appendix.

of education, and so on. After the financial crisis of 1997 and the subsequent IMF intervention, Korea has become a more open and market-dominated economy. Foreign direct investment, then amounting to a meager 0.5% of PPP GDP in 1989, rose to 2.1% in 1999 (see Table 3, Appendix) and in 2001, total foreign investments reached 10% of GDP. As a consequence, foreign companies, numbering some 4,700 in 1998, climbed to 8,100 in 2000. The Korean government has removed a variety of regulations relating to business activities.

These post-crisis economic changes, together with political change as a result of democratization in 1987, transformed Korean society. First, the Korean economy has continued to grow although growth halted for a short period immediately after the crisis. Second, the state-civil society relationship has changed favorably. Civil society organizations, including private and public interest NGOs, have proliferated and become increasingly influential. Third, small and medium companies, together with foreign companies, have produced a larger portion of commodities although some 30 big conglomerates are still dominant in the economy (see Table 4, Appendix). In addition, public interest NGOs have been playing an increasingly important role in forming public opinion and in influencing government policies and, frequently, business decisions.

Thus, the Korean economy continues to grow even after the financial crisis and is becoming healthier than before. Moreover, state power has been weakened and civil society's role and influence have increased. Alongside these positive changes, however, negative effects have also been felt. A relatively high unemployment rate (see Tables 6, 7, Appendix), higher job insecurity, and an increasing socio-economic inequality (see Table 8, 9, Appendix) are some of the consequences. That is, a larger portion of the population has become vulnerable to social risks such as unemployment, old age, poverty, and accidents.

As required to do so by international financial institutions like the IMF and the World Bank, the government improved the traditional social protection system in order to cope with the negative effects of neoliberal reform immediately after the financial crisis. It increased budgets for that purpose and expanded the coverage and benefits of social security and social assistance programs (see Table 10, Appendix). As we will see later, however, the current social protection system, though much improved, does not yet provide an adequate level of social welfare for the socially weak (see Table 13, Appendix).

Both electoral and parliamentary politics have been dominated by the two major parties and one minor party, which compete in electoral politics on the basis of provincial loyalty and not of policy stance. The Democratic Party for the New Millennium, currently in government and very similar to the British Labour Party or the American Democratic Party in its ideological and policy stance, includes some pro-labor and/or pro-welfare state politicians, but they do not have much influence in policy making due to their minority position within the party. Moreover, the party occupies roughly a third of the seats in parliament, thereby making it necessary to compromise on governmental policy with other parties. The other major party is the Grand National

Party, which is currently in the opposition, but is the largest party in parliament, taking a majority of seats. It is an anti-communist or anti-socialist party, resembling the British Conservative Party or the American Republican Party and opposes any legislation favoring labor and/or the socially weak. The last party, Alliance for Free Democracy, holds a much stronger stance in anti-communism or anti-socialism and is as antagonistic towards developing a welfare state as the Grand National Party.

For this reason it is difficult to expect that deficiencies of the current system will be repaired in the foreseeable future. Furthermore, the ruling party, a pro-welfare state party, shares a neoliberal belief system with other parties – that economic recovery and growth will automatically do away with these negative effects and that creating more jobs to have the poor work is the best policy. Although there are non-parliamentary parties – such as the Democratic Labor Party and Socialist Party – and NGOs (which are either labor or socialist, thus pro-welfare state, and have some influence among the public), they cannot directly affect governmental policies because they do not have a single seat in parliament.

1.2 Availability and Quality of Data

Most of the data used here can be obtained from the government and also from international organizations. Some data, for example relating to income distribution and the poverty level, are not available from the World Bank or other international organizations but they can be found from Korean government sources. Most of the data are reliable and/or comparable, but some data are not. This is largely due to the fact that the Korean government uses different criteria than western democracies. One example is data about the employment/unemployment rate and the ratio of atypical employment. In official statistics, unemployed persons are those who, among people aged 15 and above, have both the ability and willingness to work but have not worked at all. In this case, the most important difference from western countries is the fact that those who have the ability to work but give up searching for jobs due to difficulties in doing so are not considered as unemployed.

1.3 Existing Institutional Framework

Political democratization in 1987 gave birth to numerous NGOs including trade unions, which are free from government control. As of 2000, there were 5,698 unions and 6,000 non-union NGOs active in civil society. Trade unions have a membership of 1,526,000 and NGOs have a membership of some 200,000. There are some NGOs which are heavily dependent on financial and moral support from the government and collaborate with it, but most NGOs formed after 1987 try to keep away from the government and are critical of it. There are two types of NGOs: public interest NGOs and private interest NGOs. The former pursues the public's common interests such as a clean environment, clean politics and participative democracy, and women's rights. The latter usually includes trade unions, employers' associations, medical doctors' associations, pharmacists' associations and so on to pursue their members' common (occupational) interests. Foreign companies, which numbered around 8,100

as of 2001, have their own organization in order to defend and expand their interests in Korea.

NGOs in Korea enjoy most civic and political rights in the same way as their counterparts in western democracies. Trade unions were once prohibited from engaging themselves in politics, especially in electoral campaigns and in political fund-raising, but since 1998 they have been allowed to campaign in elections and to raise political funds. However, non-union NGOs are prohibited from getting involved in electoral campaigning and political fundraising.

NGOs play an important role, especially in forming public opinion, and thereby pressure the government and/or political parties to adopt or not to adopt certain policies. One of the pre-eminent examples which show NGOs' influence on governmental policy is the introduction of the Real Name Account Act in 1993, which was made possible due to the Citizens' Alliance for Economic Justice's (CAEJ: *Kyungshilyon*) long-time campaign.² A recent example is the Campaign for Minority Shareholders' Rights initiated by the Solidarity for Participative Democracy (SPD: *Chamyeoyondae*) in 1998. Most recently, trade unions and other NGOs, including SPD and CAEJ, launched an alliance for solving the problem of atypical employment in 2000. In 2001, some NGOs also formed an alliance to pressure the government to provide an adequate level of social assistance for the poor, leading to the enactment of a new Basic Livelihood Protection Law. In general, NGOs, including trade unions, are (although informally) consulted by the government, thereby being able to exert some influence in the policy-making process.

However, employers' associations, in particular foreign companies' associations such as the American Chamber of Commerce in Korea (AMCHAM), have a stronger influence on the government in making economic policy than any other NGOs. According to a survey conducted by a weekly journal in April 1999, elite groups in Korea find the IMF, foreign companies and big conglomerates most influential. But at least in the area of social protection-related policy, medical professionals' associations such as medical doctors' and pharmacists' associations exert a strong influence.

Social policy issues such as employment security, industrial restructuring and social protection are to be discussed and agreed on in the Tripartite Commission, composed of the same number of representatives from trade unions and employers' associations, and some government-appointed commissioners. However, because of their conflicting interests it is rare to reach consensus, thereby leaving room for intervention by the government.³ However, the government has almost always succumbed to medi-

2 A Real Name Account is referred to as 'a bank account in which the account holder is identical with its real owner.' It was widespread practice until 1993 in Korea for the real owner of a bank account to borrow his/her relative's or friend's name for the purpose of evading tax or concealing illegal transactions like bribery.

3 The current form of the Tripartite Commission was established by Kim Dae Jung's government in January 1998, in order to consult and to reach a consensus on a whole variety of issues relating to IMF conditions. In the beginning, it was merely a consultative organ which was not supported by laws and could consult the President, but later it was reestablished as a formal organ after a law concerning the Labor-Management Government Commission was passed in parliament in May 1999. With a two-

cal professionals' groups – i.e. medical doctors' associations and/or pharmacists' associations.

Cooperation between the different NGOs (i.e. trade unions, employers' associations, and public-interest NGOs) is rare, although each of them sometimes cooperates with the government. Public interest NGOs are usually hesitant to work together with the government because they are afraid of becoming dependent on it.

Most government bureaucrats tend to be anti-labor (but pro-business) and anti-welfare. As a result, trade unions have to rely on collective action in order to put pressure on these bureaucrats and parliamentary delegates. Even mass strikes do not make any significant difference. This is largely due to political circumstances unfavorable to labor as well as to its organizational weakness. As discussed above, parliament is overwhelmed by conservative parties, which are anti-labor and anti-welfare. Trade unions organize merely 10% of the workforce and, worse, are divided into two national umbrella organizations – the Federation of Korean Trade Unions (FKTU) and the Korean Confederation of Trade Unions (KCTU).

1.4 Government Support

The current Korean government has made a commitment to create a fully equipped social protection system. It has overhauled and/or expanded the traditional system including unemployment insurance, industrial accident compensation, national pension, and national health insurance. However, it has at the same time firmly committed itself to making Korean society free market-dominated. In order to implement the IMF agreements and also to respond to employers' demands, the government has launched a neoliberal reform, which, if successfully implemented, will make Korea fully open to foreign products and capital and dominated by markets free from government regulation. Such a dual commitment – to a full social protection system and to a free market – has led the government to adopt an Anglo-Saxon model of social welfare, namely a work-linked welfare system. A work-linked welfare system stresses self-support rather than full employment. Furthermore, it links the provision of social assistance and/or social security to the beneficiaries' willingness to work. As a result, the Korean government prefers pushing the unemployed back into the labor market through developing human capital to guarantee them a minimum income.

The current government has a limited capacity to make and implement policies, particularly those related to social protection. First of all, it is a divided government where the government party is a minority in parliament. Second, it has a narrow constituency, partly due to the fact that its electoral support is based on a minority region, and partly due to the fact that its neoliberal labor market policies have made traditional allies such as trade unions turn their backs. Third, it has limited control

thirds majority vote, it can deal with and make a decision on employment security and working conditions, principles and directions of corporate restructuring, institutions and practices of industrial relations, and other related industrial, economic and social policies. It can ask related government organs to implement its decisions (Law Concerning the Establishment and Operation of the Labor-Management Government Commission 3 May 1999).

over bureaucrats who are responsible for implementing government decisions but have mostly conservative mindsets.

The only support for its reform efforts comes from international society, i.e. the IMF, World Bank, Western countries, and so on. External actors support the Korean government in overhauling the traditional social protection system as well as in reforming the economy. However, the kind of social protection system that external actors have in mind is the Anglo-Saxon type, and not, for example, the Swedish productivist welfare system. Moreover, the Korean government is vulnerable to pressure and lobbying by private-interest NGOs such as medical doctors' associations. Furthermore, a number of politicians and bureaucrats are corrupt and look only after their own private interests. Overall, the Korean government is firmly committed to preparing for a full-scaled social protection system, but it prefers to link social welfare benefits to beneficiaries' willingness to work or to find jobs, and is limited in its capacity to implement the policies due to its weak constituency and rampant corruption.

1.5 Traditional and Contemporary Perception of the Social Protection System

The traditional social protection system in Korea has been characterized as being residual. Residualism in Korea's social assistance system means that it was strictly means-tested and highly targeted. Some of the programs were simply underdeveloped so that they could not provide any meaningful protection against risks and insecurities brought about by the market. As a consequence, Korean people tended to rely heavily on private welfare, which could be purchased in the market or provided by private sector employers.

The social protection system under the Kim Dae Jung government has been greatly improved, compared to the traditional one. Nevertheless, not a few socially weak persons are left out without any adequate protection. This is partly due to the underlying dual principles of work-linked welfare and residualism the government adopts. It can also be attributed to cultural values and the mentality most Korean people have toward the social protection system.

According to a survey conducted by the government in July 1996, 45.5% of 1,500 respondents believe that individuals and families are responsible for caring for the elderly. On the other hand, 73.3% of the respondents think the government is responsible for assisting the poor and 61.8% feel it is responsible for helping the handicapped. Opinion about who must solve women's problems is evenly divided into individuals and/or families, NGOs, and government, at 25.6%, 37.1%, and 34.7% respectively. Thus, public perception of who is the most responsible for the socially weak varies according to the problem area and is much divided. Korean people have very strong loyalty to their family, and their loyalty diffuses to other social groupings – such as alumna, a group of persons from the same village or province – which are mostly formed on the basis of personal ties. Within these groups, personal relationships are paternalistic and patriarchal. At the same time, they are

very individualistic and do not trust (groups of) persons who do not belong to the same group. According to a survey conducted by Sejong Institute in 1995, a majority of respondents believe that anyone who works hard can live an affluent life; that it depends on him/herself whether one is poor or rich; and income inequality is legitimate. Around 80% believe that personal ties to decision makers are the most important factor contributing to one's success.

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

The formal sector in Korea can be defined as a group composed of largely well-qualified workers, remunerated in the form of regular wage payments, and protected by labor related laws. Thus, this group can be referred to as regular employees. Table 1 shows how the ratio of workers in the formal sector in Korea has changed. It illustrates that after the economic crisis, the structure of employment has deteriorated along with the structural adjustment carried out by most firms. One of the most evident findings is the increase of temporary and daily workers. The ratio of this group to total paid employees increased to 51% in 2001 from 46% in 1997. Thus, it can be said that the size of the informal sector is growing in Korea.

Table 1: Employment Status of Paid Workers (unit: thousands)

	Paid workers			
	Total	Regular employees	Temporary employees	Daily employees
1990	10,950	5,938	3,171	1,840
1992	11,618	6,617	3,233	1,778
1995	12,784	7,429	3,545	1,809
1997	13,226	7,151 (54.1)	4,182 (31.6)	1,892 (14.3)
1998	12,191	6,457 (53.0)	3,998 (32.8)	1,735 (14.2)
1999	12,522	6,050 (48.3)	4,180 (33.4)	2,289 (18.3)
2000	13,141	5,252 (47.6)	4,511 (34.3)	2,378 (18.1)
2001	13,410	6,519 (48.6)	4,599 (34.3)	2,292 (17.1)

Source: Korea National Statistical Office, various years c.

There is a big difference in the level of wages according to the size of enterprises in the formal sector. Table 2 shows that in October 2001, workers in firms with 500 or more employees could earn about 70% more compared to workers in firms with 5 to 9 employees. In particular, it is worth noting that this gap tends to widen. In fact, the Gini coefficient in Korea has gone up since the economic crisis of 1997. According to the Korea National Statistical Office, the Gini coefficient of an industrial worker's household living in an urban area had been 0.283 in 1997. Yet, it was 0.320 in 1999 and 0.319 in 2001 (see Table 9, Appendix).

Table 2: Level of Wage According to the Size of Enterprises (per cent)

	October 1999	October 2000	October 2001
5 – 9 workers	100.0	100.0	100.0
10 – 29	115.0	117.2	119.2
30 – 99	118.9	121.8	123.9
100 – 299	129.4	133.2	131.6
300 – 499	148.0	151.5	156.9
500 workers or more	164.7	169.6	170.1

Source: Korea National Statistical Office, various years c.

Korea has experienced dual labor market problems in the formal sector. Most Korean workers are very reluctant to work in '3D' (dirty, dangerous, difficult) workplaces. Employers in 3D industries suffer from a shortage of labor. As a result, foreign workers, who are paid far less than domestic workers, have substituted Korean workers in most of the 3D jobs. However, there has been an oversupply of labor in the big corporate sector.

Korea experienced a dramatic increase in real wages during the period 1989–94. Interestingly, Taiwan, possibly one of Korea's main competitors in trade markets, also experienced a significant growth in real wages at that time. However, since 1991 the hourly labor cost in manufacturing industries in Korea had started to exceed that of Taiwan. As a consequence, Korean firms, which had enjoyed a comparative advantage mainly due to considerably lower costs, began finding it increasingly difficult to maintain their competitiveness.

2.1.2 Social Insurance and Savings Schemes

The Korean social security system consists of the four main social insurance programs present in Western welfare states using the social insurance model. They have been gradually built up since the mid-1960s: Industrial Accident Compensation Insurance (1964), Medical Insurance (1977), National Pension Insurance (1988) and Employment Insurance (1995). Korea has gradually extended the compulsory coverage of the four main social insurance programs, considering the administrative difficulties in collecting the insurance premium in very small enterprises.

Industrial Accident Compensation Insurance, introduced in 1964, was the first significant social security program in Korea. Initially, the program covered only those working in mining and manufacturing industries with more than 500 employees. Thereafter, the program was gradually extended and finally covered all workplaces from July 2000 onwards. The program is funded entirely out of contributions from employers, with the government paying for a portion of the administration costs. On this point, the Industrial Accident Compensation Insurance is rather a state-administered insurance for employers who are liable for the compensation of industrial accidents.

The Medical Insurance Program took effect as a compulsory social security program in 1977, covering just the employees working in large firms with 500 workers or

more. After several reforms for expanding its coverage, the Medical Insurance Program finally became a universal system by covering the self-employed in urban areas in July 1989. Three types of medical insurance systems (for industrial workers, the self-employed, and public and school employees) were integrated into this unified national system, National Health Insurance (NHI), in 2000.⁴ Though there is no difference in the benefit package among the insured, the insured have to pay contributions determined on the basis of different methods. For the employed (including industrial workers and public and school employees), the level of wages is the only basis for deciding on contributions. The contribution rate, which should be less than 8% of the monthly wage, is equally paid by employers and employees. However, the contribution of the self-employed is decided on the basis of income, property and the number of dependents. In particular, the government gives subsidies amounting to 50% of total expenditure for the insurance scheme for the self-employed.

The National Health Insurance in Korea has a co-payment system. The patient has to pay a very high proportion of the medical service fees. As for outpatient care, the co-payment rate is decided from 45% to 60%, varying according to medical institutions. Inpatient care is 20% of the medical service fees. Consequently, despite there being a universal national health system, Korean citizens have to pay nearly one half of the total for medical expenses directly out of their own pocket.

As for National Pension, there are four kinds of pension schemes in Korea: National Pension Program (NPP), Pension for Government Officials, Pension for Military Personnel and Pension for Private Teachers. The pension scheme in Korea was initially introduced for public officials and military personnel in the early 1960s. The National Pension Program, as a compulsory scheme for private firms with ten or more employees, was introduced in 1988. In 1992, the compulsory coverage was expanded to cover workplaces with five or more. In July 1995, the compulsory coverage was extended further to cover the self-employed living in rural areas, including farmers and fishermen. Finally, the pension program has been extended to cover the self-employed living in urban areas from April 1999. Thus, the NPP covers most of the population by now.

The NPP has different contribution methods as well as different benefits for specific groups. In the case of the employed, contributions are charged equally to employers and employees on the basis of fixed rates. Currently, the contribution rate for the employed is 9% of the monthly wage of the insured: 4.5% from the employer and 4.5% from the employee. The contribution rate paid by farmers and fishermen as well as the self-employed in urban areas is 5% of standard monthly earnings at present. It is worth noting that the government has provided financial support only for farmers and fishermen, which amounts to one-third of the contributions paid by the insured of the first lower earnings class. The government will provide these subsidies for farmers and fishermen until 2004.

⁴ Since the integration of medical insurance systems, the NHI consists of two categories: 40% of the employed are called 'enterprise insured person' and 60% of the self-employed are called 'regional insured person'.

The level of income replacement for a pensioner who has contributed for 40 years is 60%. On the other hand, as with the NPP, it is important to note that there is a group that gets more benefits than another. The amount of pension received consists of two parts: the basic and the additional amount. The basic amount is decided according to the average monthly wages of all insured persons, which is aimed at income redistribution, while the additional amount is based on the average amount of the monthly standard wages of the insured individual, which is aimed at income proportional distribution. Thus, the NPP can be said to combine the earnings-related system with the redistributive benefits schedule. In the NPP, the insured who are less well-off receive more benefits in relation to the contributions they paid.

The employment insurance system (EIS) is mandatory for all enterprises. The EIS was initially implemented in enterprises with 30 employees or more for unemployment benefits, and enterprises with 70 employees or more for the ESP (Employment Stabilization Program) and the JSDP (Job Skill Development). However, faced with a rapidly increasing unemployment rate, the coverage of EIS has been extended. On October 1, 1998, all enterprises were covered by EIS regardless of their size. Therefore, all employees in any enterprise are covered by EIS with some exceptions (see 2.3).

The insurance costs for unemployment benefits are financed by equal contributions from both covered employees and employers. However, employers are responsible for financing the costs of both the ESP and JSDP because employers get direct benefits from them. The contribution rates of each program in EIS are determined considering the financial situation of the Employment Insurance Fund and the prospects of economic and labor market situations. Since the economic crisis resulted in a high unemployment rate and a sharp increase in expenditures for unemployment benefits and active labor market programs, the government increased the contribution rate of each program. As of 1999, the contribution rate for unemployment benefits is 1.0% of the total payroll, the rate for the ESP is 0.3%, and that for the JSDP ranges from 0.1% to 0.7%, depending on the size of the firm.

The programs and benefits under the Employment Insurance System will be discussed in detail in Section 2.3. In this section, we will only mention that unemployment benefits in Korea are hardly generous. The level of unemployment benefits is 50% of previous earnings. The duration of the benefits ranges from three months to seven months, depending on working periods and the age of the unemployed. Moreover, unemployment benefits in Korea were designed without consideration of family circumstances, such as number of dependents. Thus, not only the level but also the duration of unemployment benefits in Korea are insufficient to alleviate hardship for unemployed persons.

On the other hand, the government has encouraged individuals to have tax-favored individual savings. In particular, in a situation where social security benefits are hardly sufficient to provide a reasonable protection for workers, tax-favored individual savings accounts are expected to play an important role in maintaining income in case of economic threats.

2.1.3 Social Assistance and Services: Benefits and Transfers

There were two main social assistance programs for the poor before the economic crisis of 1997: the Livelihood Protection Scheme and Medical Assistance. They are all means-tested benefits. The Livelihood Protection Scheme was launched in 1969. It aimed at providing a minimum level of relief to the poor. However, it had very strict entitlement conditions and provided living allowance only for those unable to work.⁵ To be eligible for benefits, claimants had to prove a loss of income-earning ability and an absence of private support from relatives.

On the other hand, the Medical Aid Scheme was put in operation in 1977 and had two different categories. The first category covered indigent people who did not have the means to pay for health care. They were entitled to government full-financed medical treatment including both out-patient and in-patient care. The second category was low-income groups who became entitled to receive out-patient medical care, which was paid for completely by the government, and in-patient care for which 30% was defrayed by the government and the remaining 70% was provided by no-interest, long-term government loans. Their entitlement conditions and benefit systems have been reformed but their basic form remains unchanged. In 1996, the Livelihood Protection Scheme covered 3.3% of the population, and Medical Assistance reached 3.8%.

In the wake of the 1997 crisis, in order to make the Livelihood Protection Scheme play a key role in the creation of a social safety net, the Kim Dae Jung government reformed the entitlement condition as well as the benefit systems. First, the Temporary Protection Scheme was introduced to provide benefits for those who could not afford to maintain a decent standard of living due to unemployment or a drop in income. The number of temporary recipients was extended to around 750,000 people by early 1999. Thus, the ratio of the total recipients of Livelihood Protection in the population increased to 4.2% in 1999 from 2.6% in 1997. Second, the means-tested conditions were relaxed by revising the requirement of the maximum assets from 29 million won to 44 million won. Finally, there was a change in the benefit structure. The living allowance, which had been paid only to those unable to work for general living costs was provided for all others covered by Livelihood Protection, including temporary recipients for the winter term of six months.

In addition, since October 2000, the Basic Living Protection Scheme has replaced the Livelihood Protection Scheme. Under the new scheme, the government has provided living allowances for all of the people whose monthly income is less than the minimum living costs decided by the government. This means that all recipients of the Basic Living Protection Scheme are entitled to a living allowance, which increasingly makes the Korean government play a key role in welfare provision. In other words, this new scheme has strengthened the nature of social rights embodied in the

⁵ Both personal incomes and assets had to be lower than amounts annually specified by the government. In 1995, the necessary level of monthly income for entitlement to public assistance remained less than 16% of the average monthly cash wage of an industrial worker.

social assistance program. In August 2001, the Basic Livelihood Protection Scheme covered 151,000 people, amounting to 3.2% of the population.

In addition, the Korean government moved to increase the level of social assistance to the lower-income elderly funded through earmarked budgetary resources. In 1998, the amount of this benefit, known as old-age allowance, was 40,000 won for persons between ages 65–79 and 50,000 won for those over age 80. However, Korea does not have any other social assistance benefits that can be seen in other welfare states, such as family allowance.

Recently, on the other hand, as of 2002, the government expanded the period of maternity leave from 60 days to 90 days. The benefit of an additional 30 days will be provided from the Employment Insurance Fund and governmental general expenditure. In addition, women can take a year off after delivery to care for their child. In this case, they will receive a grant amounting to 200,000 won provided from the Employment Insurance Fund equivalent to US\$150. There are also special measures in the Employment Insurance System to promote women's employment. A grant is instituted to promote re-employment of female workers who have left the workforce because of pregnancy, childbirth or childcare. In addition, the grant is instituted to foster employment of mothers who support their own household.

2.2 Social Protection in the Informal Sector

If we accept a catalogue of criteria by which ILO defines the informal sector, then laborers in the self-employed category and family workers or those persons employed in establishments with less than ten people may be counted as part of the informal sector. In Korea, there are such business organizations or persons employed by them that share some of the characteristics described by the ILO. For example, family members work in a business, less than ten people are employed, there are no regular working times, and so on, but most of them are under lawful regulations and their work is not seasonal. Most importantly, the government and scholars do not provide data or analysis about the informal sector. Moreover, most of non-wage laborers are supposed to be covered by a formal social protection system – for example by a national health insurance program administered by about 200 regional insurance societies. Furthermore, expanding atypical employment is assumed to be a more serious and important problem than informal sector employment. Here, therefore, the term atypical employment will be utilized, instead of the informal sector. Thus, after having examined the conditions – i.e. wages, working conditions, and social benefits under which regular or standard employees work, the problem of atypical employment will be described.

2.2.1 Categorization of Atypical Employment

Conceptually, atypical work is commonly characterized by its contingency, transitoriness, different working conditions (compared to regular workers in the same job), and precariousness of employment. There are several types of atypical employment, such as part-time employees, dispatched workers, temporary or contractual workers,

and workers in special employment arrangements. In all cases, their numbers are increasing sharply.

The Labor Standards Act (hereinafter LSA) states that the term part-time worker means ‘an employee whose contractual working hours per week are shorter than those of full-time workers engaged in the same kind of job at the pertinent workplace’ (LSA Article 21). A second type of atypical employment is contractual work. Coupled with meritocratic labor practices or the performance pay system, which came into being with the introduction of the annual pay system, it has now become common in every industry. A third type of atypical employment is worker dispatch, a form of subcontracted employment. Worker dispatch refers to ‘a system in which an employment agency, while maintaining the employment relations after hiring a worker, has the worker engage in work for an employer in compliance with the employer’s direction and orders in accordance with a contract on worker dispatch’. Lastly, workers in special employment relations in Korea are ‘those who provide labor under subcontracts or on commission’. Such workers include golf caddies, private tutors, insurance salespersons and express couriers.

These four groups of laborers are only similar in that they are hard to define by the traditional definition of worker. They provide a different kind of labor compared to that of conventional workers, who provide labor under the direct and specific directions and orders of an employer at the employer’s workplace during fixed working hours.

2.2.2 Problems and Features of Atypical Employment

Since the late 1980s, atypical or irregular employment has become much more commonplace, particularly in the wake of the economic crisis in Korea at the end of 1997. In the 1980s wage labor increased rapidly – from 47.2% in 1980 to 60.5% in 1990 – with the main portion of the increase incurring in regular jobs. Since then, though, the portion of wage labor has stabilized and atypical work, including both daily and temporary work, has steadily expanded. This tendency has accelerated, especially after 1993. The percentage weight of atypical work, 41.2% in 1993, rose up to 45.7% in 1997. Moreover, the expansion of atypical employment proceeded largely in the form of temporary work rather than of daily work. Both replacing regular employment and filling new positions with temporary employees have already been widespread phenomena since the early 1990s.⁶

However, it was the financial crisis of 1997 and the subsequent IMF economic stewardship that facilitated this process. In order to cope with the financial crisis and pressure from the IMF, the Kim Dae Jung government passed legislation for legalizing non-standard employment.

Right after the economic crisis, a large number of firms went bankrupt and most of the surviving firms laid off their employees en masse and stopped new recruitment. Such downsizing was targeted at regular employment. At the end of 1998, the num-

6 Joyup Ahn 2001, ‘What have we learned about alternative employment arrangement in Korea: Definition, trends, and their characteristics’, Paper presented at the Korea-China Joint Workshop on ‘Trends of Atypical Employment and Policy Tasks’ in Seoul, 19 October 2001.

ber of regular workers was reduced by 1.1%, while that of atypical employees increased by the same amount. More important is the fact that workers in atypical employment outnumbered regular workers at the very time when the government implemented a comprehensive employment policy in 1999. The total number of employees rose by 1.4%, and wage laborers increased by 2.7% compared to the previous year. Among wage laborers, the number of regular employees declined by 6.3% and temporary workers rose by 4.6%, while daily workers climbed by 31.9% in 1999. In other words, non-standardization of the labor market proceeded largely in the replacement of regular employees with daily workers as their share increased rapidly. As a consequence, the proportion of atypical employees among wage laborers climbed to 51.7% in 1999, from 47.0% in 1998.

Irregularization of employment continued and the portion of atypical workers reached 52.4% in 2000. The number of temporary workers increased, while daily workers decreased. That is, in the year 2000, non-standardization of the labor market went on mainly in the form of rising temporary employment. Compared to the previous year, the total number of employed people increased by 3.8% (778,000), and 79.4% (618,000) of this occurred in wage employment. Among the increase in wage employment, temporary workers amounted to 53.1% (328,000) and daily workers were only 14.2% (88,000). At the same time, the number of regular workers increased by 3.3% (202,000) and employers also increased by 7.2% (100,000).

Non-standardization of employment has been prevailing in almost every industry sector and in almost every occupational group. It has expanded most rapidly in wholesale and retail trades and in the occupational categories of service workers and unskilled job workers (see Table 11, Appendix). More importantly, atypical employment has expanded more rapidly and is most prominent among the socially weak groups like women, youth and the elderly, and among those with lower educational attainment (see Table 12, Appendix).

Concerning the wage differentials, an average hourly pay for regular employees is estimated to be 8,200 KR won, whereas temporary employees receive 4,300 KR won (a bit more than half of the regular workers' hourly pay) and 3,800 KR won (46% of the regular workers' hourly pay) are paid to daily workers.

2.2.3 Social Assistance and Services: Benefits and Transfers

The Korean social protection systems has gradually expanded its coverage, beginning first with old-age pension for government employees and for military servicemen and their dependents in 1960, and finally covering all the populace by the end of the 20th century (see Figure 1). In the process, the financial crisis of 1997 and the following IMF economic stewardship accelerated the expansion of the social insurance system. The economic crisis, accompanying the depletion of foreign exchange, and the rise of the financial crisis in 1997 radically increased the working poor as well as the number of unemployed persons, leaving them vulnerable to various kinds of social risks. In these circumstances, not just international financial institutes (i.e. IMF, World Bank) but also Korean government policymakers came to be aware that

Korea should establish social safety nets in order to proceed smoothly with economic restructuring and also in order to avoid a serious social disruption or disintegration.

At any rate, Korea succeeded to establish all the necessary institutional frameworks of social insurance by July 2000, thereby having virtually all the occupational groups covered by four social insurance programs. There are some groups of people excluded, but the government plans to include both the self-employed (including those involved in truck or taxi driving) and atypical workers (such as insurance salespersons or private tutors) in the Industrial Accident Compensation Insurance Scheme from January 2003.⁷ The government also plans to include daily laborers, working less than a month and currently excluded, into the employment insurance program from January 2003 (*ibid.*).

Nevertheless, the majority of atypical employees are not yet covered by the current social protection system (see Figure 2).⁸ Although all employees, regardless of their employment status, are supposed to be covered, atypical employees are excluded from it, partly due to administrative rules, which stipulate their non-eligibility, and partly due to employers' non-cooperation.

The following employees are not eligible for the employment insurance program: workers employed in enterprises with four or less employees in agriculture, forestry, and housing industries; daily workers employed for less than a month; workers employed in household services; workers age 65 and over; part-time employees working less than 18 hours a week; public servants; and private school teachers. In the case of national pension, workers, even if they are employed by firms with five or more employees and eligible for national pension, working less than three months; fixed-terms workers with less than a three months contract; and temporary workers employed less than three months are not eligible.

In the case of national health insurance, both workers employed less than two months, even if they are employed by firms with five or more employees, and fixed-terms workers with a less than three months contract, as well as temporary workers are not eligible. In addition, as of March 1998, those who are unemployed one year or more lose eligibility for regional health insurance (before that time, the eligible unemployment period was six months). In the case of industrial accident compensation insurance, temporary workers, even if they are employed by firms with five or more employees, are not eligible.

Thus, due to these government regulations, a majority of atypical workers are not covered by one or more of the four social insurance programs.

Looking at the details, as of end 1999, industrial accident compensation insurance applied to 59.4% of total wage workers while employment insurance covered 48.3%

⁷ *Chosun*, daily newspaper, 13 December 2001.

⁸ It is difficult to accurately find out the proportion of atypical workers that are excluded from social insurance programs, largely due to their conditions of employment such as frequent closing down of establishments, frequent job changes, irregular employment, and difficulty in verifying their earnings. For this reason, it can only be estimated in an indirect manner. Figure 2 shows the proportion of the population excluded from social insurance benefits.

of them; national pension covered 52.4% of the total employed age 15 and above, and health insurance covered 95.0% of the whole population. If we include the poor covered by Medical Aid programs, it can be said that the whole population is protected by some sort of health insurance program. However, many persons are excluded from other social protection programs. In particular, this is preeminent among atypical workers.

If we look at employer-provided social security programs, about 50% of all the employees, irrespective of employment status, are covered. To be specific, for national pension 49.5%, for health insurance 52.1%, and for unemployment insurance 44.1% of employees respectively are covered.

However, there are great differentials depending upon an individual's employment type. While 70% to 90% of regular employees are covered by some sort of social insurance, the proportion for atypical workers amounts to only 22% to 25% (see Table 13.1, Appendix). Within the category of atypical employment, there is also a huge discrepancy. While the coverage of employer-provided social insurance programs for temporary workers amounts to 20% or higher, it is only 5% for daily paid workers (see Table 13.2, Appendix). Thus, a majority of atypical workers, in particular daily paid workers, do not benefit from any employer-provided social insurance program.

Thus, due to these government regulations a majority of atypical workers are not covered by one or more of the four social insurance programs. They are also excluded from the current social protection system for other reasons. For example, since July 2000, regardless of employment size, all firms have to pay premiums for both employment insurance and industrial accident compensation insurance,⁹ but only about 70% have paid premiums for the two insurances.¹⁰

Of course, atypical workers, who are excluded from employer-provided social insurance programs, are eligible for regional insurance programs such as medical insurance and national pension. However, they cannot benefit from other social insurance programs such as employment insurance or industrial accident compensation insurance. Moreover, it frequently appears that atypical employees who are eligible for regional (or residential) insurance programs cannot afford to pay monthly premiums. This is implied by a very low coverage of national pension or health insurance.¹¹

9 For industrial accident compensation insurance, workers of all employment types are eligible for the benefit from July 2000, whether their employers pay premiums or not. <http://www.hani.co.kr>.

10 *Hankyoreh*, daily newspaper, 9 May 2001.

11 According to the Ministry of Health and Welfare, 66.1% of eligible insured residents have not paid premiums for national pension insurance for a month or more, and more than 200,000 out of 6 million residents in the health insurance program did not pay premiums. The same source informs us that among 5,795,000 insured by the regional pension scheme, excluding those (4,385) who are unemployed or cannot pay premiums for other unavoidable reasons, 33.9% pay premiums at a scheduled date and the remaining 66.1% pay later. Among the latter, 26.1% have not paid even once. High-income, self-employed earners like doctors and real-estate dealers are included among those who do not pay premiums. *Chosun*, 20 & 24 February 2002. It is noteworthy that many workers employed in firms with four or less employees are also excluded from the current social protection system. The government has urged the employers of these small firms to join both employment and industrial accident compensation insurance schemes since October 1998 and, as a consequence around 730,000 to 740,000 additional employees have joined the programs. But the coverage is still about 42%. (Yonmyong Kim, 2000).

Figure 1: Expansion of Social Insurance Programs

Year	National Pension	Health Insurance	Industrial Accident Compensation Insurance ¹	Employment Insurance ²
1963–70	<ul style="list-style-type: none"> – Government employees (1960) – Military (1960) 		Firms with <ul style="list-style-type: none"> – 500 or more (1964) – 200 or more (1965) – 150 or more (1966) – 100 or more (1967) 	
1971–75	<ul style="list-style-type: none"> – Private school teachers (1975) 			
1976–80		Firms with <ul style="list-style-type: none"> – 500 or more (1977) – 300 or more, government employees & teachers (1979) 		
1980–85		Firms with <ul style="list-style-type: none"> – 100 or more (1981) – 16 or more (1989) 	<ul style="list-style-type: none"> – Firms with 10 or more (1982) 	
1986–90	<ul style="list-style-type: none"> – Firms with 10 or more (1988) – Firms with 5 or more (1992) 	<ul style="list-style-type: none"> – Firms with 5 or more (1988) – Farmers and fishermen (1988) – Firms with 4 or less, urban self-employed (1989)³ 	<ul style="list-style-type: none"> – Firms with 5 or more (1988) 	
1991–95	<ul style="list-style-type: none"> – Farmers and fishermen (7/1995) 			<ul style="list-style-type: none"> – Firms with 30 or more (7/1995)
1996–	<ul style="list-style-type: none"> – Urban self-employed (4/1999) 	<ul style="list-style-type: none"> – Integration of regional societies and government employees & teachers' programs (10/1998) – Complete integration including workplace programs (2000) 	<ul style="list-style-type: none"> – Education service workers and social workers (1996) – Financing and insurance workers (7/1998) – Firms with 1 or more (7/2000) 	<ul style="list-style-type: none"> – Firms with 10 or more (1/1998) – 5 or more (3/1998) – 1 or more and part-timers (10/1998)

1 Applies differently depending upon sectors.

2 Only for unemployment benefits. For employment stability and occupational training, 70 or more (1995), 50 or more (1/1998), and 5 or more (7/1998).

3 Both groups are integrated into the regional health insurance scheme.

Figure 2: Occupational Groups Excluded from Social Insurance Benefits

	Occupational groups	National Pension			Health Insurance			Industrial Accident Compensation Insurance			Employment Insurance		
		1	2	3	GE & T ⁴ insurance								
Wage laborer	Government employees & teachers				GE & T ⁴ insurance								
	Clerical workers												
	Manual workers	R ⁵	A	A	R	A	A	R	A	A	R	A	A
	Firms with 5 or more workers												
Firms with 4 or less workers													
Self-employed	Farmers & Fishermen				Regional Health Insurance Programs								
	Urban self-Employed												

Note: Dark areas indicate groups of people excluded from social insurance benefits. Solid lines separate occupational groups by law.

- 1 Government employee pension.
- 2 Private school teachers pension.
- 3 Military pension.
- 4 GE & T: Government employees & teachers health insurance.
- 5 R: Regular workers, A: Atypical workers.

Looking at social benefits other than the above social insurance programs, which are also provided by employers, the following observations can be made. A majority of atypical workers are excluded from fringe benefits such as severance allowances and bonuses. Article 34 of the Labor Standard Act (LSA) states that employers must pay severance allowances worth one month of wages to those employees who have worked longer than one year for his or her company. The same law also stipulates that there should not be any discrimination. Article 10 of the LSA says that this law is applicable to all workplaces employing five or more workers and partially to workplaces with four or less employees. About half of all wage laborers benefit from the system of severance allowance. Moreover, there is a great differential between workers, depending on his or her employment status. Almost 90% of regular employees, but only 20% of temporary workers and a meager 5 % of daily workers benefit from the system. The proportion of bonus recipients is generally higher than the proportion of those who receive severance allowance. However, there is a huge differential between employees, according to his or her employment status (see Tables 13.1 and 13.2, Appendix).

Thus, a majority of atypical employees have been discriminated against in a variety of social insurance schemes, wages and other fringe benefits, even though they do the same jobs and perform in the same manner as regular workers. Worse, they are also excluded from varying social assistance programs only because they hold jobs and/or own their homes. As a consequence, they have become the working poor and occupy a marginal position in between those that are employed and unemployed.

Recognizing this, several NGOs have pursued some strategies to help the working poor. There are two kinds of roles NGOs purport to play in order to help them. One is the role of NGOs as a pressure group, which aims to put pressure on the government to reform the current social protection system so that it can provide an adequate level of social security and/or social assistance for the poor. Most public-interest NGOs belong to this category. The other role which NGOs assume is that of a service provider and/or a fund-raiser, which collects funds and distributes them to (civil) social welfare organizations. Since the NGOs' role as a pressure group has been discussed above, we will examine those NGOs functioning as a service-provider and/or a fund-raiser.

As of 2002, there are now several NGOs which collect funds from the public and allocate them to welfare facilities or the needy. For example, in order to provide social assistance for the poor and the disabled, the Community Chest of Korea (*Sahoibokji-kongdong-mokeumhoi*) was launched in November 1998. It was established by law, but is an NGO, which originated from the 'Central Association for the Promotion of Helping the Poor', formed in 1992 by economic and social NGOs in order to raise and allocate funds collected from the public for social welfare works. There are many other NGOs and campaigns of a similar nature supporting welfare facilities or specific groups such as the poor, the disabled, or the elderly. These NGOs merely play a complementary role in providing social assistance to the socially weak.¹²

2.2.4 Voluntary Schemes: Savings, Credit and Micro-insurance Schemes

In Korea, most of the population are involved in the formal sector either through wage relations or through exchange relations in the market and are covered by formal social protection schemes. Therefore, voluntary schemes do not play any significant role in providing social protection. In fact, no community-based social insurance or savings schemes have been identified.

2.2.5 Integration of the Informal Sector (Atypical Employment)

In 2000, trade unions and other NGOs formed an alliance for the purpose of pressuring the government and employers to standardize atypical employment and integrate it into a formal social protection system. The government and employers face two difficulties if they are to integrate atypical workers into the current system. First is the problem of international competitiveness of domestic products. Second is the problem of honest reporting of income. The former may have to be tackled in cooperation with foreign actors, especially with international organizations. The latter has to do with the problem of cultivating popular loyalty to the law, which, in turn, necessitates both 'clean politics' and the 'rule of law'.

12 Before 1997, the Ministry of Health and Welfare took a leading role in raising and allocating funds by taking control of charitable contributions. Such a system revealed some problems, for example: firstly, funds were used in areas which should have been financed from the government budget; secondly, the government frequently used the funds for a political purpose. This is why the task of fundraising and its allocation has been transferred to NGOs.

2.3 Labor Market Policy

During economic growth periods, employment expansion was of central importance in protecting individual welfare. It is notable that since the early 1960s when the Korean economy made a flying start, Korea achieved not only dramatic economic growth, but also a rapid expansion of employment as shown in Table 3. It is true that the remarkable economic growth together with near full employment enabled Koreans to avoid a number of possible social risks and reduced the demand for social welfare.

Table 3: Unemployment and Underemployment: 1963–2000 (Unit: percentage)

	1963	1968	1973	1978	1983	1988	1993	1996	1998	2000
Unemployed	8.2	5.1	4.0	3.2	4.1	2.5	2.8	2.0	6.8	4.1
Underemployed*	8.7	5.4	3.8	1.0	0.5	1.0	1.3	1.4	2.4	2.8
Sum	16.9	10.5	7.8	4.2	4.6	3.5	4.1	3.4	9.1	6.9

* Underemployment refers to those who worked less than 18 hours per week.

Source: Korea Statistical Office, 2000.

However, a dramatic increase in real wages in Korea since the end of the 1980s was one of the main constraints in maintaining the competitiveness of domestic firms in world markets. In addition, Korean firms started to experience a worker shortage from around that time. In this situation, the Korean government did not only introduce the Employment Insurance System in 1995, but also tried to increase labor market flexibility.

The Employment Insurance System is designed not only to help unemployed workers by giving them unemployment benefits, but also to enhance employment stabilization and employability of workers. The EIS has three major programs: i) Employment Stabilization Program (ESP), ii) Job Skill Development Program (JSDP) and iii) Unemployment Benefits. The first two programs are active labor market measures, whereas the last one is a passive measure. Thus, Korea's EIS is a combination of traditional unemployment benefits and active labor market programs. This is why Korea refers to its system as an employment insurance system rather than an unemployment insurance system.

Korea has experienced, in particular after the economic crisis, an increase in temporary and daily workers, which leads to the deterioration of the employment structure. The ratio of temporary and daily workers in total wage workers was 47% in 1997, but it went up to 51% in 2001. There is structural unemployment among low-skilled workers including long-term unemployed, disabled, and middle-aged persons. An active labor market policy for them is supposed to improve their opportunities to find jobs.

2.3.1 Active Labor Market Policy

The Korean Employment Insurance System has adopted various measures for an active labor market program in the ESP and the JSDP.

The ESP seeks to prevent massive layoffs, stimulate reemployment and expand job opportunities by providing economic incentives to employers who avoid massive unemployment and employ displaced workers. To improve job matching, it also seeks to promote job placement by providing accurate information on the labor market and administering vocational counseling and guidance. In order to pursue these aims, the ESP is composed of four sub-programs: Employment Adjustment Assistance, Regional Employment Stimulation Grants, Employment Facilitation Assistance, and Labor Market Information and Job Placement Services.

First, Employment Adjustment Assistance supports employers who stabilize employment i) by taking proper measures for employment maintenance such as a temporary shutdown, reducing working hours, employment maintenance training, dispatching employees, leave of absence, and employee relocation, or ii) by hiring displaced workers. Second, Regional Employment Stimulation Grants were created to expand employment opportunities in designated regions with serious employment conditions by subsidizing employers who created employment in those regions. Third, Employment Facilitation Assistance helps employers who promote employment of marginal workers, such as the elderly and women breadwinners who are the head of the family. Finally, Labor Market Information and Job Placement Services aim at i) improving job placement and shortening the spell of unemployment by providing job seekers with quick, active and tailored services for new jobs; and ii) improving efficiency in the labor market by supplying appropriate, prompt and accurate information to all participants of the labor market.

Before the financial crisis, the expenditure for ESP was meager, only 8.5 billion won in 1996, mainly due to the stable economy and labor market conditions. However, ESP began to be widely utilized from 1998 onwards by employers as a measure for reducing massive unemployment during the process of structural adjustment and for promoting employment of marginal workers. The expenditure for ESP dramatically increased, reaching 184 billion won in 1999. It is also notable that most of the expenditure for ESP was allocated to employers who undertook measures for maintaining current employment.

On the other hand, in order to enhance the quality of the labor force, Korea's EIS has a series of programs for supporting vocational education and training in JSDP. JSDP is an incentive system set up to encourage employers and employees to participate in lifelong vocational training and education through providing financial support. It seeks to foster and stimulate vocational training for new entrants to the labor market and to develop the job skills of employees and displaced workers. When the EIS was introduced in 1995, JSDP was applied only to firms with less than 1,000 employees.¹³ Enterprises with more than 1,000 employees were allowed to pay a training levy to the government instead of training. However, the experience from 1995

13 From 1976 to 1998, Korea maintained the training levy system based on the Basic Law on Vocational Training. Under the levy system, enterprises with 150 employees or more had two choices: either to invest a certain percentage of total wages in training their employees and/or new entrants to the labor market, or to pay a training levy to the government instead of training.

to 1998 illustrated that the incentive system through JSDP was more effective in inducing employers to participate in vocational training than the compulsory training levy system. Consequently, the government changed its vocational training system from a compulsory levy system to an incentive system of voluntary training by switching the Basic Law on Vocational Training to the Vocational Training Promotion Law on 1 January 1999.

JSDP is composed of three major sub-programs: Assistance to Employers, Assistance to Employees, and Assistance for Training the Unemployed. First, Assistance to Employers is composed of the subsidies for training costs and loans for training facilities. Second, Assistance to Employees is composed of vocational training subsidies for insured employees and loans for tuition. Third, Assistance for Training the Unemployed provides free training opportunities and training allowances for displaced workers and new entrants to the labor market. It is composed of Aid for Retraining Displaced Workers and Aid for Youth Training.

The performance of the JSDP is astonishing. In 1997, 200,000 insured employees developed their job skills in 9,000 firms through the JSDP. After the crisis, the number of firms and employees that participated in JSDP increased significantly. Those who developed their job skills with the support of JSDP amounted to 977,000 in 1999. Firms that benefited from JSDP totaled 43,000 in 1999.

In addition, there have been supplementary measures to establish the social safety net, such as job creation by the government. In particular, the public work program has become a crucial income source for daily workers (accounting for about 350,000), as they are not entitled to unemployment benefits. Thus, a monthly average of 300,000 unemployed people participated in the public work program from May 1998 until the end of 2000.

2.3.2 Passive Labor Market Policy

The passive labor market policy consists mainly of unemployment benefits in the EIS. Unemployment benefits are composed of the job-seeking allowance (JSA) and employment promotion benefits (EPB). The former is the core of the unemployment safety net, designed to stabilize the living conditions of the unemployed and their families, thereby facilitating active and unobstructed job seeking activities. The latter aims at fostering and stimulating reemployment of the insured individuals by providing job search assistance. Hence, EPB is complementary to JSA, and eligibility is restricted to those who qualify for JSA. EPB consists of an early reemployment allowance, vocational training promotion allowance, nationwide job-seeking allowance and moving allowance.

The duration of JSA varies depending on the insured employment period and the age of the claimant, ranging between a minimum of 90 days and a maximum of 240 days. Since Korea's EIS was implemented on 1 July 1995, the insured employment period of each covered employee cannot exceed seven years. Thus the actual duration of JSA is 90 to 210 days, as Table 4 illustrates.

Table 4: Duration of JSA (2001, unit: days)

		Insured employment period				
		Less than 1 year	1-3 years	3-5 years	5-10 years	10 years or more
Age	Less than 30	90	90	90	150	180
	30-50	90	120	150	180	210
	50 or older and disabled	120	150	180	210	240

Source: Ministry of Labor, various issues.

The expenditure for unemployment benefits was negligible before 1998, since Korea enjoyed near full employment at that time. However, the economic decline, corporate crisis and a credit squeeze resulted in lay-offs, real wage declines, and weak demand for new labor market entrants. Unemployment in Korea reached 7.6% in July 1998. As a consequence, the expenditure for unemployment benefits increased dramatically, reaching a peak of 0.53% as a portion of GDP in 1999 as shown in Table 5. Nevertheless, the unemployment benefit recipients account for only 13.1% of unemployed persons on average in 1999.

Table 5: Public Expenditure on Labor Market Programs

	1996	1997	1998	1999	2000
ALMP ¹ /GDP (%)	0.03	0.04	0.51	0.88	0.47
PLMP ² /GDP (%)	0.00	0.03	0.26	0.53	0.30
Total	0.03	0.07	0.77	1.41	1.07

1 ALMP is the expenditure for active labor market programs.

2 PLMP is the expenditure for passive labor market programs.

Source: Ministry of Labor, various issues.

On the other hand, the minimum wage system, which took effect for firms with ten or more employees in 1988, was finally extended to all workplaces in November 2000.¹⁴ The level of minimum wage is determined annually by the Committee for Minimum Wage, composed of governmental representatives, business representatives and labor representatives. The amount of minimum wage was 1,865 won per hour between September 2000 and August 2001.

3. Assessment of the Effectiveness and Efficiency of the Existing System

In this section, we are going to assess the existing social security system in terms of the effectiveness and efficiency in running the systems. We set the criteria for comparison as follows:

¹⁴ Disabled persons, internship workers and workers in training are not eligible for the minimum wage system, given that the employer had sought permission for the exemption of minimum wage issued by the Ministry of Labor.

3.1 Coverage

In response to the economic crisis in Korea, the social security reforms have not been limited to the establishment of social safety nets. Rather, they have been developing towards a more comprehensive welfare system. The current Korean government, the Kim Dae Jung government, has tried not only to redesign but also to expand them with the following measures: the extension of the Unemployment Insurance Scheme to all workplaces in October 1998; the extension of the National Pension Scheme to cover the self-employed living in urban areas in April 1999; and the integration of the medical insurance societies into a unified national health system as well as the extension of the Industrial Accident Compensation Insurance Scheme to all workplaces in July 2000.

As we can see in Table 6, all regular workers in Korea are in principle covered by the four main social insurance programs. However, it is noteworthy that temporary and daily workers, who are not covered by the EIS, are the most vulnerable to economic threats. In fact, since the economic crisis, temporary or daily workers have been the worst affected. Given that they are not eligible for unemployment benefits, the pain of unemployment has been further aggravated.

Table 6: Coverage of Social Insurance Programs According to Employment Status

Employment status	National Pension	Health Insurance	Employment Insurance	Industrial Accident Compensation
Regular workers	Covered	Covered	Covered	Covered
Temporary workers	Covered	Covered	Partially covered	Partially covered
Daily workers	Covered	Covered	Partially covered	Partially covered
Self-employed	Covered	Covered	Not covered	Not covered

Furthermore, the real coverage rates in the four main social insurance programs show a very different picture from the principle shown above in Table 6. For example, the National Pension Program (NPP) was expanded to cover the self-employed in urban areas in April 1999. This means that the NPP in Korea began to cover all of the economically active population over 18 years old; however, more than 50% of the people who should affiliate themselves to the NPP deny making contributions for it. In addition, though the government has extended the coverage of the EIS and IACIS (Industrial Accident Compensation Insurance System) to all workers, there are many workers who are not covered by both programs. Most of them are working in firms with less than five workers because their employers are usually reluctant to pay for the insurance premiums of both programs, owing to great concern about increasing labor costs. Yet, the NHI covers all Korean people except for the poor who are covered by Medical Assistance. Consequently, with respect to coverage, the reality is different from the law though there is the exception of the NHI. Korea still has to make more effort to expand the coverage of social insurance programs.

3.2 Feasibility

It is true that after the economic crisis the social security system in Korea has evolved into a more comprehensive system. However, owing to the insufficient preparation for such rapid expansion of social security programs, there are some problems in implementing the social security reforms. In particular, the integration of three types of medical insurance systems into a unified national system has resulted in a new social conflict between the employed and the self-employed concerning the amount of contributions paid. The National Pension Program, which also covers employees as well as the self-employed, has the same kind of problem as the National Health Insurance. This conflict has occurred mainly due to the fact that the income of the self-employed in Korea is not sufficiently assessed in taxation.

As a consequence, though the three types of health insurance systems are integrated, their financing is still separate. Financial integration was scheduled for implementation from 1 January 2002, but it was deferred for 18 months because of strong political objection from the main opposition party. Thus, at this moment, financial integration has achieved horizontal equity only among the self-employed and among employees, not across the entire population.

With respect to the policy-making process of social security, it is worth noting that since the economic crisis, the workforce's demand for social security has been increasing. In fact, in order to obtain popular agreement on ways of overcoming the economic crisis, the Kim government urged both management and labor to participate in the tripartite committee, known as the Labor-Management-Government Committee. All social security reforms after the economic crisis in Korea were indeed approved for implementation by the tripartite committee. The committee made an accord to integrate the four social insurance programs in Korea into a unified social security system. However, the financial integration of Medical Insurance is uncertain, as is the feasibility of integrating four social insurance programs, since the present government is nearing the end of its term. Furthermore, the growing conflict between employees and the self-employed over the contributions for the social insurance programs will be another factor that hampers the government from implementing its social security reforms.

3.3 Financial Sustainability

There has been a great deal of doubt about the financial sustainability of some social insurance programs. First of all, the NHI has been suffering from financial collapse since 1997. Not only the unification of three health insurance systems, but also the new health service division between doctor and pharmacist, introduced in 2000, have been particularly blamed for this financial bankruptcy. Currently, overcoming this liquidation is the most urgent task with respect to running NHI. To tackle this problem, the government has announced several measures, including the establishment of the earmarked tax on tobacco, the increase of governmental subsidies, and the increase of the contribution rate. The latter two measures will not be easy to implement.

Another big concern about financial sustainability has been raised with NPP. The possibility of a financial crisis in the pension scheme is essentially ascribed to the improper institutional design of the program, the promise of too generous pensions with a relatively low level of contributions and the emergence of an ageing society. In 1998, the level of income replacement for a pensioner who contributed for 40 years was reduced from 70% to 60%. The pension age of 60 years will be increased as of 2013 by one year every five years to reach 65 years. Contribution rates of employers and employees rose to 4.5% of the monthly wage. In the case of the self-employed, the contribution rate is to be annually increased by 1% from 2000 to 2005, that is, from 3% to 9%.

In addition, as the three separate occupational pension schemes for civil servants, teachers and the military are more mature when compared to NPP, these schemes are rapidly approaching fiscal imbalances and are projected to run deficits some time during the next decade despite their already high contributions.

3.4 Gender Equity

It is acknowledged that the welfare state in Western countries was generally built up on the basis of the male breadwinner model. That is, women were expected to stay at home and do housework whereas men were expected to work outside of the home.

Given the tradition of Confucianism in Korea, the idea of the male breadwinner might influence the labor market as well as the social security system. It is true that female workers are not equally treated in the labor market when compared to male workers. In the case of the new entrants to the labor market, female youth have more difficulties in finding jobs compared with male youth. Furthermore, female workers are more likely to be employed in the informal sector. As for female workers working in the formal sector, their wages are far lower than those of male workers, as we have seen earlier.

However, it is rare in Korean social security laws that gender inequality is encouraged with respect to benefit or eligibility. The Employment Law for Gender Equality, legislated in 1987, guarantees a leave of absence for child rearing in firms that employ more than five workers. Therefore, the employer must allow a leave of absence for childrearing when requested by employees whose child is under one year old. The total period of the leave of absence for childbearing and rearing may not exceed one year, as specified in the Labor Standard Law, Article 72. This period includes paid maternity leave and leave of absence for childrearing.

3.5 Costs of Administration

The government established quasi-governmental organizations to run the social insurance programs; the National Health Insurance Corporation for National Health Insurance; the National Pension Corporation for National Pension; the Korea Labor Welfare Corporation for Employment Insurance; and Industrial Accident Compensation Insurance. The first two are under the control of the Ministry of Health and

Welfare and the latter is under the Ministry of Labor. The chief executive of each quasi-governmental organization is appointed by the state.

The Korean government has mainly provided subsidies for the administration costs of each social insurance program, though it also provides subsidies for the Regional Health Insurance Fund for the self-employed and for pension contributions paid by farmers and fishermen. However, the government has tried to cut administration costs. For example, administration costs for the Medical Insurance Programs are 6.5% of total expenditures in 2000. They were recorded at 8.5% in 1997. This decrease may be ascribed to the integration of medical insurance societies. Though the integration of the four social insurance programs into a unified social security system will greatly contribute to the reduction of administrative costs, its feasibility is very uncertain.

3.6 Targeting

With respect to the issue of targeting, we shall first look at the social assistance program, particularly the Employment Insurance System (EIS), before examining the social insurance programs.

Social assistance programs in Korea can be defined as formal safety nets targeted at the poor with the objective of raising living standards to an acceptable social minimum. Under the Basic Living Protection Scheme, the government has provided living allowances for all people whose monthly income is less than the minimum living costs decided by the government. In August 2001, the Basic Livelihood Protection Scheme covers 151,000 or 3.2% of the population. However, due to the strict eligibility conditions of the scheme, there are still many households who should be covered but are not.

With the expansion of EIS coverage, the number of employees and enterprises actually covered is increasing. The actual number of covered employees was 4.2 million on 31 December 1995 and 6.2 million on 28 February 2000. However, the number of insured employees was only 70.9% of employees that should be entitled to the EIS by law as Table 7 shows. The EIS does not reach 30% of the target group. From this figure, it can be said that the EIS is not effective.

Table 7: Coverage in Number of Workers (thousand)

	July 1995	January 1998	July 1998	February 2000
Paid workers	12,824	12,500	12,603	12,819
Eligible workers	4,280	5,190	8,342	8,700
Insured workers	4,204	4,309	5,876	6,172
As a portion of eligible workers	98.2	83.0	70.4	70.9

Source: Ministry of Labor, 2001.

There are several reasons for this gap. First, although employers have a duty to register at the public employment office and pay EIS premiums for their employees, many employers of very small enterprises neglect to do this. Second, it is extremely diffi-

cult for the public employment offices to identify very small enterprises and their employees and collect insurance premiums from them because small businesses open and close down constantly. Third, most daily and temporary workers are not effectively covered by the EIS even though they should be covered by the system if their employment periods are one month or longer. Therefore, how the government can effectively identify very small enterprises and their employees and collect insurance premiums is a big issue in improving targeting of the EIS.

3.7 Accountability and Transparency

The Korean government has to be responsible for the sound management of four social programs. This means that the government should not only control the programs, but also be in charge of maintaining the fiscal stability of each program. Thus, the government has monitored and supervised the management of the insurance funds on a regular basis and made the process of allocating money and benefits open and transparent to the public.

For instance, in order to manage a sound Employment Insurance System, all of the contributions for EIS are deposited into the Employment Insurance Fund (EIF), which is a special account in the Bank of Korea. EIF has a separate account for each program of EIS and should have a sufficient reserve fund in order to pay unemployment benefits and implement active labor market programs in the event of a serious economic downturn and high unemployment rate.

As for the Pension Fund, the mismanagement of the reserve fund, in particular with respect to government borrowing from the fund, was increasingly criticized. From 1988, when the NPP was introduced, to 1996, the government borrowed more than 50% of the total reserve fund, and by the end of 1998 this amount had reached 75%. The interest rates of all these governmental borrowings remained lower than those of financial institutions, which substantially accounted for differentials from 1.5% to 4%. Therefore, the reforms by the new government in 1998 were initiated not only to redesign the pension program, but also to increase the transparency and efficiency of the pension fund management. In order to ensure transparency and to increase returns with respect to managing the funds, reforms were implemented so that the details of the fund management have to be announced to the public and the government has to pay higher rates of interest than other financial institutions.

4. Development of Innovative Programs and Alternative Social Protection Schemes

Besides political and administrative barriers, the current social protection system in Korea has a fundamental problem. The assumption that growth promulgated in the functioning of free markets and considerations of economic efficiency are unquestionably essential prerequisites for achieving improvements in the well-being of all people is underlying the principle of work-linked welfare, which the government espouses as a rationale for the current social protection system. The government and

employers insist that without the recovery and/or growth of the economy, an adequate level of social protection, say, for the poor, will not be achievable.

The principle of residualism also has to do with this growth-oriented strategy. Any support given above the level of minimum subsistence, it is argued, will produce welfare dependency. The Korean government is not alone in holding such an assumption. The discussion on social protection and/or social safety nets, widely recommended by international organizations, is by no means advocating anything near to an even modest welfare state. Rather, it is intended to be nothing more than a minimum base-line for cushioning adverse social and potentially political side effects of economic depression or neoliberal restructuring.

However, if we are to stick to the principle of putting economic growth first and advocating trickle-down effects and the work-linked welfare principle, then many groups of socially weak, i.e. the elderly, the disabled, the unskilled, and many others who may not be perceived as necessary for overall economic development cannot but be excluded from adequate social protection. Moreover, historical experiences show that the allocative efficiency of free markets has never been realized in the real world due to imperfect market conditions, market failures, and imperfect information.

Therefore, we cannot wait and see if the free market produces sufficient resources for social protection and the fruits of economic growth trickle down. Rather, we should put the current social protection system on a completely different principle: namely, that it is everyone's inviolable right to be protected by an adequate level of social welfare. Since rights must be protected and fulfilled, governments and employers have an obligation to give them first priority and guarantee them by all means. Economic development, market mechanisms and economic efficiency are not intrinsically good or desirable, but they must primarily and foremost help improve the well-being of all people and, therefore, be oriented towards that goal.

Once the principle of social protection as a socio-economic right is established, we have to redesign the current social protection system completely. First of all, those legally and de facto excluded from social security benefits, i.e. atypical workers, have to be incorporated into the system. Second, benefits have to be raised up to a level which enables welfare recipients to live a decent life. Third, policy makers' and the public's traditional perception of social protection has to change so that they can support the principles of social protection as an inviolable human right and the precedence of social rights over growth.

Related to this, some thoughts must be given to the question of whether the Anglo-Saxon model of an economic system, which the IMF has recommended to the Korean government and which underlies most government policies, will go hand in hand with these principles. It is questionable whether it will help to change policymakers' and the public's traditional perception of social protection. It has yet to be proved that the Anglo-Saxon model of a business system performs better than any other model, such as the Rhine model, not only in terms of social protection but also even

in terms of economic growth. Moreover, socio-economic institutions cannot be easily transformed because they are intertwined with other political institutions, to the extent that without simultaneous changes in these institutions, they alone cannot be changed.

The Anglo-Saxon model of an economic system has close affinity with a system of work-linked welfare and residualism, which leaves many socially weak with inadequate social protection. It is also dubious whether this model will help Korea to enjoy sustainable development. It seems Korea's traditional values and orientations have more commonalities with continental European countries than with Anglo-Saxon countries. In addition, continental European countries tend to provide better social welfare for their people. Therefore, Korea may have to reroute social and economic policies in a different direction, away from the current one.

This will give rise to the problem of feasibility because, most of all, the Korean government and major political forces may not be persuaded. Therefore, redesigning the current social protection system on new principles may have to be reserved as a long-term goal. For the present, both preliminary work for the future and a complementary job for the current system have to be done concurrently.

As far as preliminary work for the future is concerned, it is most important that a new concept of social protection be diffused among policy makers as well as the public. As stated previously, a majority of Korean people believe that the first responsibility for assisting the socially weak or those facing social risks should be laid on individuals themselves and/or their families. With this perception, there will be no room for the concept of social protection as an inviolable right. Therefore, the prevailing perception of social rights must be changed more than anything else. Since the government and political parties are swayed by the prevailing idea of social protection, NGOs may have to take on this responsibility.

Tasks for complementing the current system are varying and not easy to achieve. The current social protection system implemented in its present form has many problems and difficulties. It has improved greatly, compared to the traditional system, but it still shows many deficiencies. To cite a few: exclusion of many socially weak from social security and/or social assistance benefits, insufficient level of support, and lack of an effective connection between social security and social assistance programs.

These problems have arisen partly due to strict eligibility, lack of coordination between government departments themselves and with NGOs, and insufficient financial resources or government budgets, which, in turn, are caused by administrative inefficiency, inability to secure honest tax reports, and over-commercialization of health care. Therefore, in order to reform the current social protection system for the purpose of providing many socially disadvantaged people with an adequate level of support, these underlying factors must be effectively tackled.

Keeping this in mind, we will discuss in the final section some of the policy recommendations which would help improve the current system of social protection.

5. Policy Recommendations

In theory, the current social protection system will provide an adequate level of social security or social assistance to the employed and the needy. However, more than a few workers and needy are excluded from social welfare benefits due to several inherent problems. Here are some policy recommendations to help in solving these inadequacies:

First, in order to improve the effectiveness of the National Basic Livelihood Security Act (1999) – one of the most important programs with which the government aims to extend public assistance to a larger segment of the poor – it is necessary to substitute a new set of criteria for the current one by which beneficiaries are determined. In implementing the Act, the government has made eligibility stricter than in the previous program by using criteria such as work capability (or willingness) and amount of income and assets, thereby leaving many of the needy unprotected. For example, the lower echelons of middle-income earners, most of whom are temporary or part-time workers, workers in tiny businesses, or self-employed, are left unprotected by the current social protection system. This is because they are not eligible for the NBLSA (National Basic Livelihood Security Act) due to their employment and because their employers do not provide social security benefits due to their employment status. This makes the Act's original purpose debatable. It is therefore necessary to substitute a new set of criteria (i.e. an optimum level of welfare) for the current one.

Second, in the case of health insurance, the major problem is high user fees stemming from high coinsurance arrangements within the plans and also from full direct payment for non-insured services. This is caused largely by the fact that health care has become a business. Affordability and access are affected greatly by the growth of profit-driven corporations in the health care field. Providers refuse to serve those who cannot pay, will only promote services with a reasonable monetary return, raise prices to the extent the market will bear, increase utilization to maximize income, and aggressively promote excessive and irrelevant services that may not address patients' basic health needs. Commercialization is threatening the ethos of health care. As a result, the commercialized health-care system leaves out destitute people who are in need of it, and raises health-care costs, which, in turn, will eventually push up insurance premiums.

To tackle these problems, the government must provide a financial means that helps poor people who cannot afford costly health care; manage technology diffusion and its utilization; regulate pharmaceutical pricing and marketing; and take measures to reduce fraudulent medical claims and tax evasion. However, since the government has been captured by medical professionals' associations, NGOs may have to play an important role.

One of the most important tasks to be addressed is a perception gap between the public and health-care leaders in issues as fundamental as the following:

- What is social health insurance about and what can be expected from it?
- How is health care different from other goods and services?

- What is the health care system aiming for?
- How is the excluded population group handled by the system?

In addition, the current medical insurance program comprising three types of insurance schemes – for employees in private firms; for the self-employed; and for government employees and private school teachers – were merged to form one organization, the National Health Insurance Corporation, in July 2000. The financing and methods of calculating contributions of the three schemes are still separate and different, thereby causing serious problems in terms of finance and fairness. Each medical insurance society has imposed different amounts of contributions on the insured. This occurs because premiums are calculated on the basis of different criteria; for example, for wage workers premiums are calculated on wages alone, whereas for the self-employed, premiums are calculated on both total income and property and the number of dependents. Different kinds of benefits depending upon each society's financial situation are provided.

This situation has given rise to unfairness for the beneficiaries and financial difficulties for workplace insurance societies which are disadvantaged. Although employees in private sectors contribute less than in other sectors (i.e. self-employed), they receive more benefits, thereby causing a problem of unfairness. This has also contributed to the deterioration of the financial situation. Private-sector employees receive insurance benefits of more than 31% of their contributions, while self-employed receive benefits just 3% higher than their contribution. Moreover, the former pay lower premiums than the latter. Thus, the current system of separated insurance societies was a major cause of a huge deficit of 1,835,300,000,000 KR won for the fiscal year of 2001.¹⁵ The government party and opposition parties previously agreed on the integration of distinctive health insurance societies, but the latter changed their stance and pushed for a new legislation, which has left the system just as financially separated as before.¹⁶

Third, in the case of both the health insurance and national pension schemes, the equity problem has to be solved. It may not be easy to maintain an equitable system if the total incomes of the self-employed are not accurately documented. To evade tax, it is not uncommon that the self-employed, including doctors, lawyers, and restaurant owners do not report their incomes honestly. Reported incomes sometimes amount to a meager one-tenth of total incomes. Since insurance premiums are calculated on the basis of reported incomes, this gives rise to an equity problem, and also causes financial deficiency. This poses a more serious problem in the case of the national pension program. Therefore, the government must give priority to tackling

15 *Hankyoreh* Daily Newspaper, 28 January 2002. Deficits in national health insurance are caused by several factors. Some examples are an aging population, the increasing role of general and tertiary-care hospitals, lack of incentives for the provider of medical resources, and the abrupt increase in the costs of pharmaceuticals and medical supplies.

16 Opposition parties' positions comprise a majority in parliament. The labor side is divided into two opposing blocs. KFTU, a long-standing and more conservative trade union confederation, supports the separate system, while KCTU, a recently formed and more radical national center, supports an organizational and financial unity of separate societies. *Hankoyreh* Daily Newspaper, 24 December 2001.

this problem. Fourth, the absence of private pension coverage may pose a problem because public pensions provide protection with the expectation that other sources of income and supportive mechanisms will provide an adequate level of support. The problem becomes more serious because the replacement ratio is expected to be lowered as financial difficulties increase due to the aging of society. An alternative would be to convert the current severance allowance scheme offered by corporations into an occupational private pension scheme, which would supplement public schemes.

Lastly, in order to solve the problems of inefficiency and/or accountability, at least three things have to be done. One is coordination and/or integration of varying social welfare programs and/or projects scattered among government departments, which in some cases overlap. Here, it is important to integrate and unify the programs into one system, which will facilitate the establishment of the 'equal contribution (or premium) equal benefit' principle. It is also necessary to set up a unitary system of premiums or benefits in which premiums and benefits (i.e. social assistance) are calculated on the basis of total and honest earnings. For that purpose, the integration of two different health insurance societies and a merger of the four social insurance programs may be needed. In addition, the job of imposing and collecting contributions has to be switched over to the National Tax Office.¹⁷ Some emphasis should also be put on the cooperation between the government and NGOs or between NGOs, without which it is difficult to provide the one-stop service for potential beneficiaries. The last field for reform is an increase in professional manpower, i.e. qualified public social welfare officials, which is a prerequisite for the effective implementation of a social protection system.

¹⁷ Yonmyong Kim 2000, 'Social protection of atypical workers and policy implications', Paper presented at the seminar jointly organized by KFTU and KCTU (17 October 2000).

Appendix

Table 1: Demographic Trends

Population	Total (million)		1975	35.3
			1999	46.4
			2015	50.6
	Age (as % of total)	15 and under	1999	21.2
			2015	17.2
		65 and above	1999	6.8
		2015	11.6	
Urban (as % of total)		1975	48.0	
		1999	81.1	
		2015	88.2	
Population growth rate	Average annual growth rate (%)		1975–1999	1.1
			1999–2015	0.5
	Age (%)	0–14	1999–2015	–0.9
		15–64		0.6
		Above 65		3.8
Life expectancy	Total fertility rate (per woman)		1980–1985	2.5
			1995–2000	1.7
	Infant mortality rate (per 1,000 births)		1970	43.0
			1980–1985	23.0
			1995–2000	10.0
			1999	5.0
	Life expectancy at birth (in years)		1970–1975	62.6
			1995–2000	74.3
	Total		1980	65.9
			1995	72.4
	Male		1980	63.6
		1995	68.8	
Female		1980	71.1	
		1995	76.0	

Source: UNDP, 2001.

Table 2: Education

Literacy	Adult literacy (% age 15 and above)		1999	97.6
	Female			96.2
	Male			99.1
	Youth literacy (% age 15–24)		1999	99.8
	Female rate (% age 15–24)		1999	99.8
	Female rate as % of male rate			100.0
Enrollment	Net primary enrollment	Ratio (%)	1995–97	93.0
		Index (1984–87=100)		97.0
		Female ratio (%)	1999	93.0
		Female ratio as % of male ratio	1995–97	101.0
	Net secondary enrollment	Ratio (%)	1995–97	97.0
		Index (1984–87 = 100)		114.0
		Female ratio	1995–97	97.0
		Female ratio as % of male ratio		100.0
	Combined primary, secondary and tertiary gross enrollment ratio (%)	Female	1999	85.0
		Male		95.0
	Children reaching grade 5 (%)		1995–97	98.0
	Gross tertiary enrollment (%)	Female ratio	1994–97	52.0
		Male ratio		82.0
	Tertiary students in science, math and engineering (as % of all tertiary students)		1994–97	34.0

Source: UNDP, 2001.

Table 3: Economy

Economic performance	GDP	US\$ Billions	1999	406.9
		PPP US\$ Billions		736.3
		per capita (PPP US\$)		15,712
	Growth of output (average annual % growth)		1980-90	9.4
			1990-99	5.7
	GDP	per capita % growth	1999-2000	7.8
	Average annual change in consumer price index (%)		1990-99	5.3
			1998-99	0.8
	GNI	Billions of dollars	2000	421.1
		Per capita dollars		8,910
PPP GNI	Billions of dollars	2000	820.0	
	Per capita dollars		17,340	
Integration with the global economy	Trade in goods	% of PPP GDP	1989	35.7
		% of goods GDP	1999	35.9
	Growth in real trade less growth in real GDP (%)		1989-1999	7.1
	Gross private capital flows (% of PPP GDP)		1989	3.3
			1999	9.1
	Gross foreign direct investment (% of PPP GDP)		1989	0.5
1999			2.1	
The structure of trade	Imports of goods and services (as % of GDP)		1990	30.0
			1999	35.0
	Exports of goods and services (as % of GDP)		1990	29.0
			1999	42.0
	Primary exports (as % of GDP)		1990	6.0
			1999	8.0
	Manufactured exports (as % of merchandise exports)		1990	94.0
			1999	91.0
Terms of trade (1980 = 100)		1998	99.0	

Note: The Korea National Statistics Office gives different figures. According to the statistics office, GNI per capita amounted to US\$10,823 in 1995; 11,380 in 1996; 10,307 in 1997; 6,723 in 1998; 8,551 in 1999; and 9,628 in 2000. <http://www.nso.go.kr/eng/>.

Source: UNDP, 2001.

Table 4: Ratio of Small and Medium Sized Enterprises and Large Conglomerates

	1995	1997	1998	1999
Number of establishments	99.0	99.1	99.2	99.2
Number of workers	68.9	69.3	70.5	73.0
(large conglomerates)	(4.4)	(4.1)	(3.7)	(2.9)
Gross sales	46.5	46.3	46.3	47.5
	(46.0)	(45.9)	(46.5)	(42.4)
Value added	46.3	46.5	48.0	48.3
	(15.0)	(12.0)	(12.0)	(10.2)

Source: Korea National Statistics Office, various years a.

Table 5: GDP by Kind of Economic Activity

	1985	1990	1995	1997	1998
Agriculture, forestry, fishing and hunting	12.8	9.1	6.2	5.4	4.9
Mining	1.0	0.5	0.5	0.4	0.4
Manufacturing	30.3	29.2	29.4	28.9	30.7
Electricity, gas and water	2.8	2.2	2.1	2.1	2.3
Construction	7.7	12.9	11.3	11.6	10.1
Wholesale and retail trade	12.2	11.3	12.5	11.4	10.6
Hotels and restaurants					
Transport, storage and communication	7.6	7.1	6.6	6.6	6.9
Banking, insurance, real estate & business services	11.8	13.8	18.1	19.1	19.6
Other community, social & service activity	4.1	4.0	4.6	5.0	5.0

Source: Korea National Statistics Office, various years a.

Table 6: Labor Market

Labor force participation rates of population at age 15-64 (%)	Total	1980	64.0
		1995	67.1
	Male	1980	77.6
		1995	79.1
	Female	1980	50.2
		1995	54.7
Youth and elderly labor force participation and total economic dependency ratio (%)	Labor force participation of persons at age 10-15	1980	0.4
		1995	0.0
		2000	0.0
		2010	0.0
	Labor force participation of persons older than 64	1980	23.8
		1995	23.4
		2000	22.2
		2010	20.5
	Economic dependency ratio (number of economically inactive persons per 100 active)	1980	14.5
		1995	10.4
		2000	9.6
		2010	8.7

Table 6 (Cont'd)

Gender inequality in economic activity	Female economic activity rate (age 15 and above)	Rate (%)		1999	53.0
		Index (1985=100)			110.0
		As % of male rate			69.0
	Employment by economic activity	Agriculture	Female	1994-97	13.0
			Male		10.0
		Industry	Female		21.0
			Male		38.0
		Services	Female		66.0
			Male		52.0
	Contributing family workers	Female	(as % of total)	1994-97	88.0
Male			12.0		
Unemployment in OECD countries (1999)	Unemployment	Rate (% of labor force)		1999	6.3
		Average annual rate (% of labor force)		1990-98	2.9
		Female rate as % of male rate		1999	73.0
	Youth development	Rate (% of labor force aged 15-24)		1999	14.2
		Female rate as % of male rate			66.0
	Long-term unemployment (as % of total unemployment)	Female			1.9
		Male			4.7
Unemployment as a percentage of the labor force	Total	1990		2.4	
		1995		2.0	
		1997		2.6	
		1999		6.3	
	Male	1990		2.9	
		1995		2.3	
		1997		2.8	
	Female	1990		1.8	
		1995		1.7	
1997		2.3			
1999		5.1			
Value added as % of GDP	Agricultural		2000	5.0	
	Industry		2000	44.0	
	Services		2000	51.0	

Source: UNDP, 2001.

Table 7: Summary Table of Economically Active Population

	1990	1995	1997	1998	1999
Population age 15 & above (thousand) (% of female)	30,887 (51.7)	33,664 (51.6)	35,362 (50.8)	35,362 (51.5)	35,765 (51.5)
Economically active population (thousand) (% of female)	18,539 (40.5)	20,853 (40.3)	21,662 (41.0)	21,456 (39.9)	21,634 (40.4)
Economic activity participation rate (%) (female)	60.0 (47.0)	61.9 (48.3)	62.2 (49.5)	60.7 (47.0)	60.5 (47.4)
Unemployment rate (%) (female)	2.4 (1.8)	2.0 (1.7)	2.6 (2.3)	6.8 (5.6)	6.3 (5.1)

Note: In official statistics, unemployed persons are those who, among people aged 15 and above, have both the ability and willingness to work, but have not worked at all. On the other hand, employed persons are defined as (i) those having worked for more than one hour a week for the purpose of obtaining income, profit, salary or wage, or (ii) family members working more than 18 hours a week for a farm or an enterprise run by other family member(s), or (iii) temporarily unemployed due to illness, bad weather, or vacation (Korea Labor Institute, 2000a).

Source: Korea National Statistics Office, various years b.

Table 8: Distribution of Income and Allocation of Budget

Poverty and income distribution	Population below the national poverty line (%)	Rural		n.a. ¹
		Urban		n.a.
		National		n.a.
	International poverty line (%)	Below \$1 day	1993	<2.0
		Gap at \$1 day		<0.5
Below \$2 day		<2.0		
Gap at \$2 day		<0.5		
Inequality in income or consumption	Survey based on income (I) or consumption (C)		1993	C
	Share of income or consumption (%)	Poorest 10%		2.9
		Poorest 20%		7.5
		Richest 20%		39.3
		Richest 10%		24.3
	Inequality measures	Richest 10% to poorest 10%		8.4
		Richest 20% to Richest 20%		5.3
Gini index			31.6	
Structure of consumption and investment	Household final consumption expenditure % of GDP		2000	56.0
	General government final consumption expenditure % of GDP			10.0
	Gross capita formation % of GDP			31.0
	External balance of goods and services % of GDP			3.0
	GDP implicit deflator average annual % growth		1999–2000	5.0

¹ No data available.

Source: UNDP, 2001.

Table 9: Income Distribution

	1992	1995	1997	1998	1999
1st 10%	3.3	3.3	3.2	2.6	2.7
2nd	5.2	5.2	5.1	4.7	4.6
3rd	6.3	6.2	6.3	5.9	5.8
4th	7.3	7.2	7.3	6.9	6.8
5th	8.2	8.2	8.3	8.0	7.9
6th	9.3	9.3	9.4	9.1	9.1
7th	10.6	10.6	10.8	10.6	10.5
8th	12.2	12.3	12.4	12.3	12.3
9th	14.7	14.9	15.0	15.0	15.0
10th	22.9	22.6	22.3	24.8	25.3
Gini coefficient (index of concentration)	0.2836	0.2837	0.2830	0.3157	0.3204

Source: Korea National Statistics Office, various years b.

Table 10: Budgets and Expenditures by Function

	1990	1995	1997	1998	1999 ³
Total budgets (billion KRW)	—	—	—	—	83,685.1
Total expenditures ¹ (billion KRW)	27,436.7	51,498.0	63,962.1	73,226.0	—
Ratio to GNP (%) ²	25.0	26.6	28.8	32.2	32.0
General administration (%)	10.2	10.6	10.7	10.0	9.3
National defense	25.0	22.1	21.3	19.3	17.1
Social development	8.9	8.1	9.2	9.8	11.0
Education & culture	—	—	—	1.0	—
Manpower development & population	—	—	—	0.5	—
Health & environment	—	—	—	1.7	—
Social security	—	—	—	6.6	—
Housing & local community development	—	—	—	0.1	—
Education	20.4	18.9	18.9	16.6	13.7
Economic development	14.1	22.3	25.5	30.3	26.9
Grants to local government	10.1	10.6	10.6	9.6	8.0
Repayment of debt & others	11.3	7.3	3.8	4.4	13.9

1 Net expenditure; 2 from 1995, to GDP; 3 Gross expenditure.

Source: Korea National Statistics Office, various years (d).

Table 11: Employment Status by Industry (unit: %)

	1996			2000		
	Regular	Temporary	Daily	Regular	Temporary	Daily
Total	56.6	29.4	14.0	47.1	34.4	18.5
Agriculture & forestry	14.1	23.9	62.0	8.3	14.6	77.1
Mining	61.4	26.3	12.3	74.0	16.9	9.1
Manufacturing	66.2	24.9	8.9	57.7	29.8	12.6
Electricity, gas & water	92.5	5.3	2.2	74.6	14.9	10.5
Construction	28.8	15.8	55.4	25.2	17.7	57.1
Wholesale & retail trades	35.6	54.4	9.9	23.7	56.3	20.0
Transportation & communication	80.9	16.0	3.2	71.8	21.6	6.6
Banking, insurance & real estate	68.6	28.6	2.8	54.9	39.1	6.0
Social & personal services	68.3	25.6	6.1	57.0	29.4	13.5

Source: Korea National Statistics Office, various years b.

Table 12: Employment Trends by Gender (unit: %)

		1996	1997	1998	1999	2000
Total	Regular	56.6	54.3	53.2	47.8	47.1
	Temporary	29.4	31.0	32.7	33.0	34.4
	Daily	14.0	14.7	14.1	19.2	18.5
Male	Regular	66.2	64.7	65.1	59.5	58.9
	Temporary	20.9	22.2	23.1	25.0	26.4
	Daily	12.4	13.1	11.9	15.5	14.7
Female	Regular	40.7	38.2	34.2	30.1	29.8
	Temporary	42.8	44.6	48.1	45.0	46.2
	Daily	16.5	17.1	17.7	24.9	24.0

Source: Korea National Statistics Office, various years b.

Table 13-1: Employer-provided Social Insurance by Employment Types

Employment types	National pension	Health insurance	Employment insurance	Severance allowance	Overtime pay	Paid vacation	Bonus
Total	49.5	52.1	44.1	50.2	40.0	40.5	50.7
Regular	88.0	90.7	74.2	90.0	73.1	75.5	89.5
Atypical	22.1	24.6	22.6	21.9	16.5	15.6	23.0
L.T. ¹	17.9	20.6	19.7	18.1	13.2	11.7	20.5
S.T. ²	24.4	26.3	22.4	23.4	20.0	19.1	22.5
P.T. ³	4.9	5.6	5.0	4.7	6.1	3.0	4.5
O.C. ⁴	5.4	6.5	5.5	5.0	5.9	4.3	5.0
O.A.S.E. ⁵	22.2	23.6	22.4	19.0	12.6	14.8	21.2
D. ⁶	36.8	41.2	36.8	36.0	26.5	25.0	33.8
C.O. ⁷	43.8	51.3	44.2	40.3	17.5	20.8	35.1
H. ⁸	1.6	1.6	2.0	1.6	0.4	0.8	0.8

1 Long-term temporary; 2 Short-term contract; 3 Part-time; 4 On-call; 5 Own-account self-employment; 6 Dispatch; 7 Contract-out; 8 Home work.

Source: Korea National Statistics Office, various years b/2000. Original data, manipulated by Yuson Kim, 2001.

Table 13-2: Employer-provided social insurance by employment types
(unit: 1,000 persons, KRW/hour, %)

KLI Typology	NSO Typology	Contract period	Number of persons	Hourly Pay	Health insurance	Employment insurance	Severance allowance	Bonus
Total	Total	Total	12,975	6,601	52.1	44.1	50.2	53.7
		Regular	6,231	8,225	89.8	73.9	88.7	88.0
		Temporary	4,439	4,251	23.7	22.3	20.5	23.7
		Daily	2,305	3,811	4.9	5.2	3.4	5.0
Direct employment	Regular work	Total	10,875	6,401	58.3	49.2	56.8	59.4
		Regular	5,922	8,356	90.4	74.0	89.5	88.9
		Temporary	3,730	4,224	24.2	23.2	21.7	25.2
		Daily	1,223	3,798	7.4	7.9	5.6	7.7
Indirect employment	Dispatch work	Total	136	4,163	41.4	36.5	35.8	36.3
		Regular	48	5,181	83.4	74.3	78.6	69.5
		Temporary	55	3,549	27.2	22.4	19.7	23.9
		Daily	33	3,765	4.6	5.5	0.7	2.6
	Contract-out work	Total	308	3,597	51.2	44.2	40.2	38.8
		Regular	86	4,108	85.7	78.2	74.9	71.6
		Temporary	141	2,975	55.0	43.9	39.9	32.5
		Daily	81	4,142	8.2	8.9	4.2	4.7
Special employment	On-call work	Total	954	4,033	6.2	5.3	4.7	8.8
		Regular	46	7,244	78.0	63.1	73.5	75.8
		Temporary	115	3,698	13.7	12.0	7.1	10.1
		Daily	793	3,901	1.0	1.0	0.3	0.6
	Own-account self-employment	Total	553	5,687	24.8	23.4	20.9	23.4
		Regular	127	6,545	72.1	70.9	69.2	67.9
		Temporary	335	5,633	11.8	9.9	6.8	11.9
		Daily	91	4,662	6.4	6.7	4.8	1.9
	Home work	Total	148	2,447	2.3	3.0	2.4	1.5
		Regular	2	7,169	51.9	73.7	100.0	37.8
		Temporary	63	3,047	3.7	4.6	2.2	1.9
		Daily	83	1,848	0.0	0.0	0.0	0.0

Source: Korea National Statistical Office, various years b/2000. Original data, manipulated by Joyup Ahn, 2001.

Acronyms

AMCHAM	–	American Chamber of Commerce in Korea
CAEJ	–	Citizens' Alliance for Economic Justice (Kyungshilyon)
EIF	–	Employment Insurance Fund
EIS	–	Employment Insurance System
EPB	–	Employment Promotion Benefits
ESP	–	Employment Stabilization Program
FKTU	–	Federation of Korean Trade Unions
GDP	–	Gross Domestic Product
GNI	–	Gross National Income
IACIS	–	Industrial Accident Compensation Insurance System
ILO	–	International Labor Organization
IMF	–	International Monetary Fond
JSA	–	Job Seeking Allowance

JSDP	–	Job Skill Development Program
KCTU	–	Korean Confederation of Trade Unions
LSA	–	Labor Standards Act
NBSA	–	National Basic Livelihood Security Act
NGO	–	Non-governmental Organization
NHI	–	National Health Insurance
NPP	–	National Pension Program
NSO	–	National Statistical Office
PPP	–	Purchasing Power Parity
SPD	–	Solidarity for Participative Democracy (Chamyeoyondae)
UNDP	–	United Nations Development Program

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Social Protection in Thailand

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and Naruemol Bunjongjit

Abstract

Before the crisis of 1997, Thailand experienced substantial increases in gross domestic product (GDP) and per capita income. Between 1987 and 1997, the average annual growth rate of the GDP was 8.7 percent, while for gross national product (GNP) the growth was 7.2 percent. When the crisis hit in mid 1997, real GDP growth rate of Thailand recorded -1.4 percent in 1997 and -10.8 percent in 1998. The real GDP growth rate in the year 1999 expanded by 4.2 percent. In 2000, the Thai economy was still recovering with the growth rate of 4.4 percent. The economic crisis has brought about negative effects on domestic financial, employment and general economic conditions. The incidence of poverty and unemployment increased significantly during the crisis.

In Thailand, social protection can be classified into social security (social insurance), social assistance, social services, and labour protection. According to the Social Security Act, benefits are provided for insured persons, covering seven types of benefits: illness or injury, maternity, disability, death, child allowance, old age pension and unemployment. However, unemployment insurance has not been implemented yet. Employees in the private formal sector (i.e. workers in private enterprises) and employees in the public sector (i.e. state enterprise workers, civil servants) are covered by social security measures. Apart from the social security system, the government also offers additional social assistance and services (non-contributory). Social assistance and services are classified into three categories: in-cash transfer programmes, in-kind transfer programmes and income generation programmes. The concept of social assistance and services is to provide assistance to specific groups with specific problems.

Informal sector employees (i.e. subcontracted workers, self-employed, workers in agriculture sector) are not employed under the protection of the Social Security Act and regulation. Presently, informal workers' access to the social security system is mainly through the "self-employment" scheme in Thailand. In reality, to obtain death, disability, maternity and accident benefits through this scheme, informal workers have to pay double premiums (one for themselves, and another for "employers"), which place the programme out of the reach of most informal workers who often earn less than the minimum wage.

However, a number of new ideas regarding social protection are currently being explored and, in some cases, put into practice in the form of both government sponsored and locally-based initiatives. A few of these new programmes, focusing in particular on the 30 baht universal coverage health plan and government initiatives regarding

occupational safety and health. Regarding health policies, the Thai government should continue moving toward adequate universal coverage, and should monitor and improve over time upon the 30 baht health policy. Moreover, the Social Security Act needs to be implemented in full and the coverage for subcontracted workers and homeworkers need to be clarified. At the same time, monitoring of the implementation and operation of the existing laws need to be carried out more diligently.

* The exchange rate of the bath against the US dollar at the time of writing (May 2002) was US\$1 = 42.91 baht.

1. Institutional Framework

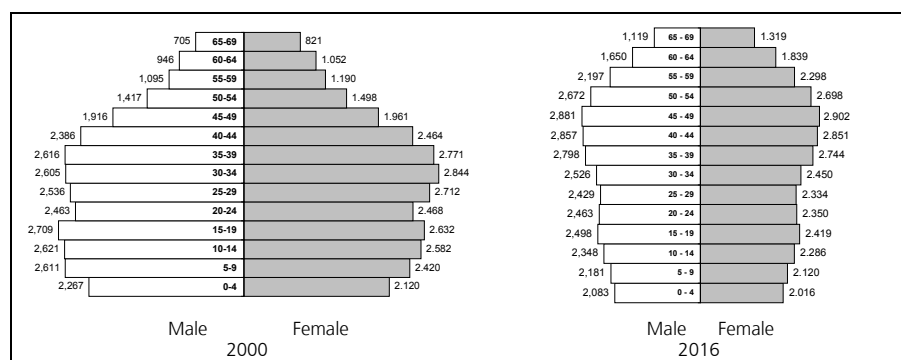
1.1 General Political, Social, and Economic Framework

General Data

According to the Population and Housing Census (2000), the actual population of Thailand in the year 2000 was 60,617,230 persons (National Statistical Office). It has been estimated that by the year 2016, the population will exceed 69.9 million (see Table 1, Appendix). Because of a declining fertility rate, population growth decreased to about 1.1% during the period 1999–2000. It has been projected that the annual rate of population growth will continue to decline during the period 2000–16. By the year 2016, it is expected to decrease to only 0.2%.

With regard to age demographics, it has been projected that there will be a declining proportion of the population aged 15 years old and below, and an increasing proportion of the elderly (60 years and above). At present, elderly persons make up nearly 10% of the total population. The proportion of elderly persons is expected to increase in the foreseeable future (see Figure 1). By 2016, elderly persons will comprise 15% of the total population (see Table 2, Appendix). This projection suggests that the need to prepare for providing support services to that segment of the population is evident. Necessary support includes income security, health care, housing and other social services.

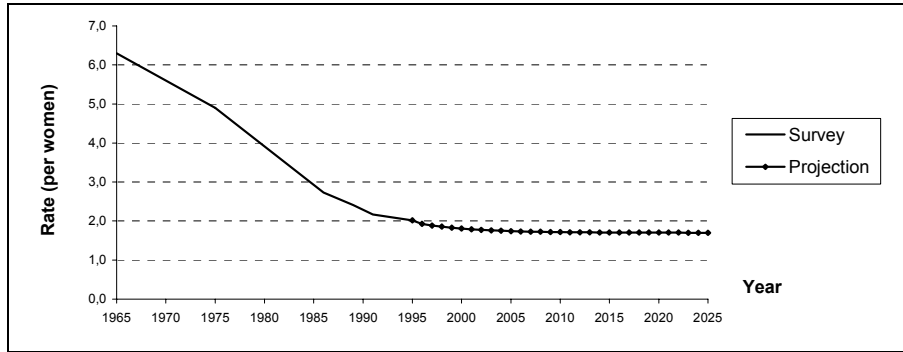
Figure 1: Population Projection by Age and Sex (thousand persons)



Source: National Statistical Office (NSO), 2001b, and Office of the National Education Commission, 1999.

The total fertility rate (TFR) in Thailand declined during the period 1965–95 from 6.3 children per woman to 2.02 children per woman. It has been projected that the fertility trend will continue to decline in the coming decades. By 2025, it is expected to decrease to only 1.7 children per woman (see Figure 2). The reason for this trend lies partly in the fact that Thailand has been highly successful in promoting family planning practices since the 1960s.

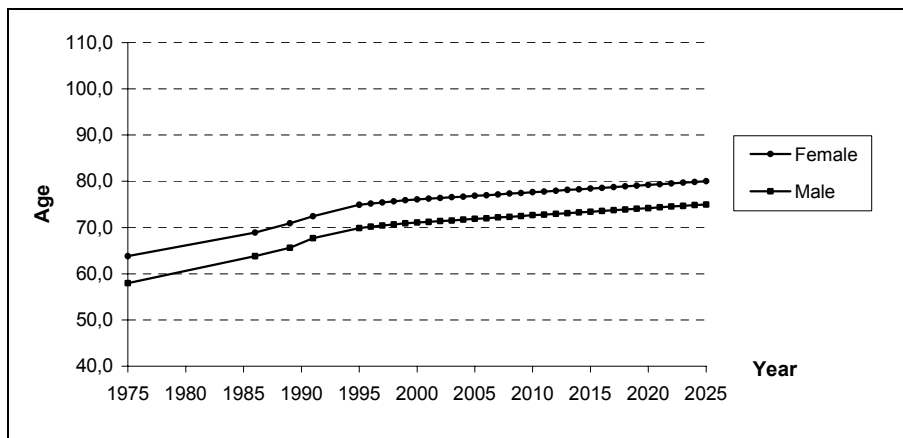
Figure 2: Total Fertility Rate, 1965–2025



Source: National Statistical Office, 1997 and Office of the National Education Commission, 1999.

In 1995, the life expectancy at birth for Thai males was 69.9 years and 74.9 years for Thai females. It has been projected that by 2025, the life expectancy for males and females will exceed 75 and 80 years respectively (see Figure 3).

Figure 3: Life Expectancy at Birth by Sex, 1975–2025



Source: National Statistical Office, 1997 and Office of the National Education Commission, 1999.

Urbanization is proceeding at a rapid pace throughout Thailand. According to the National Economic and Social Development Board (1997), about 21.9% of the total

population in 1995 consisted of urban residents. At present, urban residents account for 25.8% of the total population (in 2000). It has been projected that by 2010 approximately 35.3% of the people in Thailand will be living in urban areas (see Table 3, Appendix). Due to the fact that people want to have a better life, or at least better jobs, they tend to move to regional growth centres (e.g. Bangkok, Khon Kaen, Nakhon Ratchasima, Songkha, and Chiang Mai) that can offer more employment opportunities. Therefore, urban population ratios tend to be highest in the centre metropolitan and large city factories.

During the period 1995–2010, it has been projected that the urbanization process will continue to proceed at a rapid pace. Most of the country's fast-growing urban regions are expected to be areas on the Eastern Seaboard.

Education

The female illiteracy rate was 9.0% in 2000 (see Table 4, Appendix). The female illiteracy ratios are two to three times higher than those for males. Illiteracy can be a crucial obstacle to gaining employment, especially when the process requires written application forms or other written material.

At present, the average education standard of the population in Thailand is at the first level. A very high level of enrolment ratio for the first level of education for both men and women is observed. The gross enrolment rate does not reveal significant differences across gender at all levels of education. For higher levels of education, 34% of females advance to the third level of education, compared to 30% of males (see Table 5, Appendix).

Moreover, 42.8% of the labour force have finished level 4 of primary school. Only 11.5% advance to the highest level of education. The average educational level of the labour force in Thailand is at the primary level of education (see Table 6, Appendix).

Macro-economic Framework

Before the crisis of 1997, Thailand experienced a substantial increase in Gross Domestic Product (GDP) and per capita income. Between 1987 and 1997, the average annual growth rate of the GDP was 8.7%, while the Gross National Product (GNP) grew by 7.2%. This period produced impressive improvement in life expectancy, infant mortality, child nutrition, adult literacy and primary enrolments.

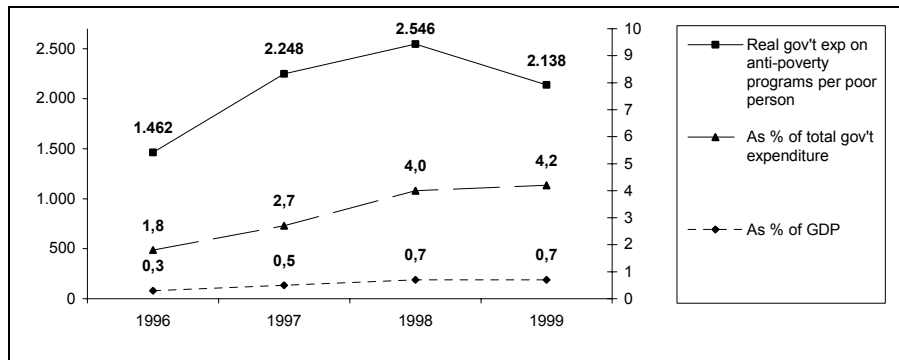
After the crisis outbreak in mid-1997, the real GDP growth rate of Thailand was –1.4% in 1997 and –10.8% in 1998. It expanded by 4.2% in 1999. In 2000 the Thai economy was still recovering, with a growth rate of 4.4%. According to the Bank of Thailand (2000), the growth rate in the years ahead is expected to be relatively the same as that in the year 2000.

Inflation measured by the Consumer Price Index (CPI) jumped to 8.1% in 1998 from 5.6% in 1997. In 1999, the inflation rate was 0.3% and rose to 1.6% in 2000. According to the NESDB, the inflation rate is expected to be 2.6% in 2001.

The economic crisis has brought about massive capital outflows with ensuing negative effects on domestic financial, employment and general economic conditions. Unemployment increased significantly during the crisis from 2.2% to 4.6% between 1997 and 1998. The Labour Force Survey in February 1999 reported that the unemployment rate reached 5.2% in 1999. In that year, Miyazawa loans helped generate employment and activate economic recovery in 2000.

Between 1996 and 2000, the incidence of poverty increased from 11.5% in 1996 to 13.0% in 1998, to 15.9% in 1999, and finally to 15.0% in 2000. This meant that Thailand effectively lost five years of its economic development (Medhi Krongkaw, 2001). An important concern, therefore, is the government's expenditure on programmes primarily directed at the poor. Between 1996 and 1999, public spending on anti-poverty programmes per person increased from 1,462 baht in 1996 to 2,248 baht in 1997, and to 2,546 baht (1 US dollar = 43.92 baht) in 1998. Due to a large increase in the number of poor persons, the expenditure per person then declined to 2,138 baht in 1999 (see Figure 3).

Figure 4: Real Government Expenditure on Anti-poverty Programmes per Poor Person, 1996–99



Source: World Bank, 2001, p. 73.

Labour Market Structure

Although the total workforce (see Table 7, Appendix) increased from 31.7 million in 1996 to 33.2 million in 2001, the labour force participation rate declined from 73.1% to 70.9% during that period. This decline was more evident among women than men. However, the change in labour force participation rates was strongly influenced by the higher rates of school attendance. The aftermath of the 1997 crisis resulted in higher open unemployment. Within four years, the unemployment rate increased twofold, from 2.0% in 1996 to 5.2% in 1999 (see Table 8, Appendix). On average, unemployment was high during that period although it began declining in 2000. After the 1997 crisis, it was believed that many of those retrenched sought work in the informal sector as small traders in urban areas or as farm workers in rural areas.

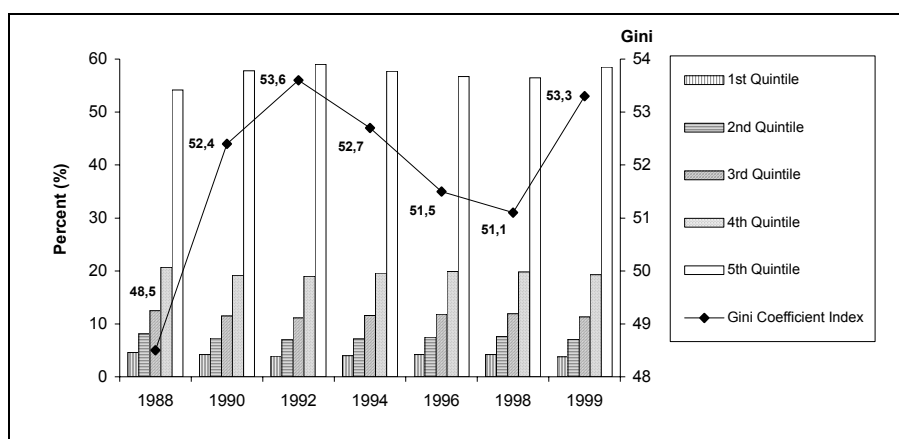
In Thailand, workers in the informal sector constituted a large number of the workforce. However, statistics are not available due to the difficulty in tracking down workers who are usually mobile.

According to the National Economic and Social Development Board (NESDB), the crisis contributed to a greater reduction in employment among males than females. The crisis indices for unemployment rates by age group indicate that workers in the age range of 30–50 years were most affected.

Between 1997 and 1999, the number of private employees declined by 12.3%, while the number of government employees increased by 9.1% (see Table 10, Appendix). The table also shows a shift from paid employment to self-employment with considerable increases for employers (22.1%) and own-account workers (8.5%). The rise in the number of employers means that the number of enterprises is rapidly growing. Nevertheless, for the whole period 1996–2001, the findings are more measured, with the number of private employees remaining almost exactly the same.

Distribution of Income and Allocation of Budget

Figure 5: Inequality of Per Capita Income

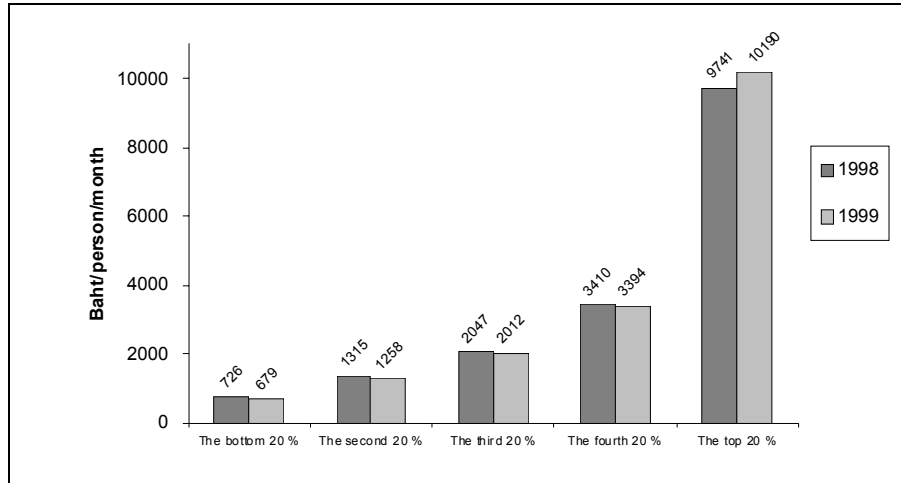


Source: National Statistical Office, *Socio-economic Survey*, processed by DED (Development Evaluation Division), NESDB.

It is noted that the income distribution in Thailand became more unequal in the early phase of its economic development, but improved once a certain development level was reached. According to the NESDB’s newsletter, distributed in September 1999, the Gini index of inequality of per capita income increased from 48.5% in 1988 to 52.4% in 1990, and 53.6% in 1992. After 1992, income inequality began to decrease and continued this trend up to 1998. It increased sharply between 1998 and 1999 (see Figure 5). This is due to a larger negative impact of the 1997 crisis on the income of the poor relative to the rich. As seen in Figure 6, the poorest group of people in the bottom 20% experienced falling income at a ratio of 4.2 to 3.8, while that of the

richest in the top 20% portion went up from 56.5 to 58.5. Therefore, income disparities between the top and bottom 20% of people increased from 4.7 times in 1998 to 5.1 times in 1999.

Figure 6: Average Per Capita Income by Quintile



Source: National Statistical Office, *Socio-economic Survey*, processed by DED, NESDB.

When the crisis hit, there was no social policy in existence to effectively deal with the problems of the poor. The government was forced to resort to external resources to support the financial and social sectors. Many projects and programmes have been introduced and implemented to bring the country firmly into economic recovery. With respect to social development programmes, the government specifically includes three sectors: education, health and social welfare.

Public expenditure on community and social services (1998–2001) can be seen in Table 11 in the Appendix. In 2001, the expenses for community and social services were 381,758 million baht, equivalent to 42% of total expenditure. The amount of 221,603 million baht was allotted to education affairs and services. It accounted for 58% of the expenditure on community and social services. However, total education expenditure was consistently growing during 1998–2001. In 2001, health affairs and services expenditure accounted for 17% of the community and social services expenditure, equivalent to 64,791 million baht.

Political System

The political system in Thailand has long been dominated by short-lived coalition politics. Elections have faced problems of vote rigging and been subject to manipulation by business interest groups. The influence of the military, which dominated Thai politics for many decades, however, has declined with the emergence of civil society. The failure of a military coup in 1992 marked the beginning of a new civilian

influence in politics, institutionalized with the passage of constitutional reform in 1997.

In the year 2000, Senate elections were introduced for the first time in Thai history. In 2001, the new general election took place and the Thai Rak Thai Party won the majority of seats in parliament. Currently, the newly elected government is proving to be effective in implementing the new Constitution in its full form. Social and political reforms have slowly taken place. Socially, recognition of the integration of disadvantaged and vulnerable groups into mainstream society is underway. Concepts of social services, social welfare, social protection, and social development are all encompassing issues to sort out in the social reform process.

1.2 Availability and Quality of Data

Labour market information is essential data for assessing existing and planned programmes for social protection, and promoting job creation, enterprise development, employment services, skills development and social dialogue. This information includes both qualitative information and quantitative data. The main sources of labour market information are the Ministry of Labour and Social Welfare, the National Statistical Office, the Ministry of Interior, the Office of the National Economic and Social Development Board and the Bank of Thailand. Moreover, various agencies produce statistical data on education and training. Among these are the Ministry of Education and the Ministry of University Affairs.

The National Statistical Office (NSO) is responsible for conducting the Labour Force Surveys (LFS), which are the principal sources of regular comprehensive labour statistics. Since the 1997 financial crisis, the LFS has been published quarterly. The NSO also conducts the socio-economic survey every two years. It is a key source of information on household income, expenditure, assets, liabilities and so on. The overall coverage and broad methodology are similar to the Labour Force Surveys.

Moreover, the Ministry of Interior also obtains information on employment as part of its village census. Due to the large volume of obtained data and inexperience of data collectors, questions have been raised as to whether the resulting statistical data are reliable and accurate. Issues of overlapping and duplication with the Labour Force Survey are also in question.

In the formal sector, enterprise surveys are generally sources of statistical data on employment. The Ministry of Labour and Social Welfare and the National Statistical Office conduct these surveys. Some deficiencies of surveys in terms of sampling frame, questionnaire design and response rate have been noted. Suggestions from the International Labour Organization (ILO) have been made to improve the survey system.

In addition, information from the Social Security Fund records is compiled as supplementary estimates in terms of employment trends. These records are reported on a monthly basis and can be compared with those from the Labour Force Survey. In doing this, one could see the fact that a large portion of daily paid employees are not

covered by the social security system even if working in enterprises with ten or more employees.

1.3 Existing Institutional Framework

The existing institutional framework discussed in this section is associated with organized interest groups, ranging from ad hoc and informal to formal and permanent institutions. In this regard, labour unions are an institution that can protect worker interests. However, the labour union movement in Thailand is weak in terms of its capacity to protect the interests and rights of workers, especially after unions in state enterprises were disbanded after the 1991 military coup. According to the Labour Force Survey (1998), about 4.6% of all private sector wage employees in the country had a labour union in their workplace. Only 2.9% reported being members of a union. At present, there is the State Enterprise Labour Relation Act, which was enforced on 8 April 2000. The Act allows workers in state enterprise to form trade unions, but it still does not give the right to strike.

The low level of unionization is mainly due to the weakness of the legal protection system available to labour organizers. Frequently, their efforts are discouraged before the union is able to hold its first meeting. According to the World Bank (July 2000), labour unions are mostly present in large establishments (over 100 workers). Small (less than ten workers) and medium (between 10–99 workers) establishments hardly have a union because it is much easier for these establishments to discourage union organizing efforts among their workers without adverse external publicity.

In addition, the economic crisis has also affected union memberships, leading to an increasing number of workers losing their jobs. At the same time, economic restructuring and privatization policies have resulted in massive layoffs. Some prominent union officials have also lost their jobs. Under Thai labour legislation, once unemployed, union officials cannot continue to hold union positions. This has obviously affected the capacity of leadership. It has had a demoralising effect on other union leaders as well (ILO, 2000).

The role of civil society in Thai politics and society has made remarkable progress. Civil society organizations have developed and expanded in number since 1980 when the government relaxed its control. Civil society groups played a vital role when the new Constitution was being drafted. Since the onset of the crisis in 1997, the voice of civil society and its participation in vigorous development debates have been significant and recognized. The new role of the civil society organization is seen in the management of the Social Investment Fund (SIF), which was launched in late 1998 with World Bank financing. Its objective is to both address the impact of the crisis and to accelerate the empowerment of communities. The Social Investment Fund represented the first occasion when the Thai government channelled funds directly to civil society organizations in large sums. Civil society organizations are currently playing an important role in providing social protection at the community level. The Thai government and donors have allocated budgets to civil society organizations to implement several programmes such as HIV/AIDS prevention and treatment, care of

the elderly, small and medium enterprise development, and environmental protection.

Currently, approximately 18,500 non-governmental organizations are registered, and many more are operating without legal status. These NGOs have formed themselves into networks and participated in a variety of community organizations (World Bank, 2001). The most striking aspect of these NGOs is their effort to coordinate initiatives among community organizations in order to improve the economic situation of group members.

More recently, the Ministry of Labour and Social Welfare established 19 provincial NGO Coordinating Centres in order to coordinate the activities of NGOs working on social welfare and safety nets in each province. In addition, the Ministry has supported legislation that would strengthen the ability of civil society organizations to provide support in the areas of social welfare.

With respect to tripartism, there are 16 national tripartite consultative bodies in Thailand. Their roles cover a broad range of mandates in labour market management. They include workplace safety, minimum wage determination, and dispute settlement. In practice, tripartism in Thailand is very weak, due to the fact that government representatives dominate the tripartite bodies. As a result, tripartism cannot act as an effective voice for the workforce's concerns. During the crisis, the Prime Minister formed a Committee on the Alleviation of Unemployment in December 1997. In practice, worker and employer representation on the Committee was minimal. Moreover, the initiatives were placed under the responsibility of individual ministries. Programme implementation did not specify a role for the social actors nor has the process of implementation apparently been a tripartite one (ILO, 2000, p. 80).

In addition, Thai trade unions have expressed their concern over the matter of decentralizing wage fixing to the provincial level. The concern, however, is that trade union organizations outside the Bangkok metropolitan area and the neighbouring five provinces are relatively weak. Therefore, it would be difficult to ensure legitimate and competent worker participation in provincial dialogues on wages (ILO, 2000, p. 83).

1.4 Government Support

Thailand has made progress in the area of governance and human rights in the past decade. This has helped the nation to deal effectively with the many ramifications of the economic crisis. During the 1990s, the country launched a concerted process of change, most notably the 1997 People's Constitution and the Eighth National Economic and Social Development Plan (1997–2001). The new Constitution embodies a crucially important institutional framework that empowers people to realize their rights and liberties as well as to participate more effectively in political and public decision-making. In addition, the new Constitution launches a more open and accountable political environment, while enhancing the system of checks and balances. It also meets the expectations of the Thai people regarding their keen awareness and

interest in vital issues such as transparency, accountability, representation, participation, decentralization, self-governance, and the rule of law and human rights.

Along with the promotion of political accountability and transparency, new institutions such as the National Counter-Corruption Commission, the Electoral Commission, and the Administrative Courts have been established. The new Constitution not only creates the framework for the restructuring of national representative institutions and reform of the electoral process, it also emphasizes gender equality, community empowerment, and basic rights in education and health.

Politically, concepts of transparency, accountability, equity, and participation are the basic criteria for good governance. The challenge now is to incorporate good governance at all levels of society. Moreover, the current Thaksin government has also promised to fight political corruption and electoral fraud. Therefore, time is a crucial factor in proving the government's intentions.

1.5 Traditional and Contemporary Perception of the Social Protection System

Initially, social protection was introduced in Thailand and was known as 'social security' in early 1932, when the country changed from an absolute monarchy to a constitutional monarchy. At that time, the idea of establishing a social security system in Thai society was not possible due to general political instability during World War II. Until 1947, when Field Marshall Phibul-Songkram became Prime Minister, the Social Security Act, B.E. 2497 (1954) was promulgated. However, the Act could not be implemented because a Royal Decree was not issued and announced. This situation was related to the fact that the government at that time did not make enough efforts to materialize the idea of establishing a social security system. Meanwhile, many people did not understand the benefits since they placed high value on family responsibility and therefore disapproved of the idea. Moreover, they felt that such a system would put an unnecessary burden on public expenditure and government administration. Faced with strong opposition, the government eventually revoked the first draft legislature on social security.

In 1972, Revolutionary Decree No.103 was issued and announced, paving the way for the establishment of the first Workmen's Compensation Fund in 1974. The Fund provided basic guarantees and protection for workers in the formal private and public sector who suffered from occupational accidents, work-related injuries and diseases.

However, the Social Security Act of 1990 was passed by Parliament and enforced on 2 September, 1990. Workers in formal contractual employment were essentially targets under this Act.

Although the Social Security Act of 1990 has been in force for more than ten years, the system is still far from comprehensive. Large numbers of workers outside of formal employment, working mainly in the agriculture sector, are not yet covered by this system. Therefore, they have to rely on traditional or informal measures of so-

cial security, such as financial support from the family, village-based savings groups or cooperative savings.

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

In Thailand, formal sector employees are classified into two categories: employees in the private formal sector (i.e. workers in private enterprises) and employees in the public sector (i.e. state enterprise workers and civil servants). Employees in the formal sector are identified as those who are employed with social protection coverage by law and regulations. They are not only protected by social security measures, but they also have a higher and regular income.

Recently, workers in small-scale enterprises (with less than 50 workers) have played an increasingly important role in Thai economy. In the enterprise sector, the prominence of small-scale enterprises can be observed. According to the Ministry of Labour and Social Welfare Survey (2000), 49.8% employ one to four workers; 83.8% employ one to 19 workers and 93.6% employ one to 49 workers (see Table 14, Appendix). At present, almost 50% (enterprises with one to four workers) of the surveyed enterprises have been identified as the 'informal sector'. At the moment, employees in this sector are not protected by law and regulations.

Government support appears to emphasize formal and large enterprises. For example, the Board of Investment under the Office of the Prime Minister is the principal government agency providing incentives to stimulate investment in Thailand. Many of the Board's activities have been oriented towards foreign investors and the development of medium and large-scale commercial and industrial operations. Little attention has been paid to small and less formal enterprises. This can also apply in particular to the area of social security. Formal and large enterprises are clearly privileged by the state. As we can see, employees in the formal sector do not only have a higher and regular income, but are also protected by social security measures. This is mainly due to the different characteristics of formal and informal sector employment. The implementation of social security schemes is rather straightforward in the formal sector, due to long-term employment, regular income, income records and so on.

However, workers employed in enterprises with one or more workers will be protected by the Social Security Act in accordance with the Cabinet's decision on 20 November 2001. The scheme will be implemented on 1 April 2002. Formal sector workers in Thailand face some significant problems, in particular with the health insurance system. The problem lies in the differences in the scope of coverage of the various insurance schemes. For example, employees in the private sector are entitled to claim medical benefits from the Social Security Fund only for themselves, whereas civil servants and employees of state enterprises are all entitled to claim medical expenses for their parents, spouse and children. However, an insured male worker is

entitled to receive maternity benefits of 4,000 baht for his spouse or for an unregistered wife. Moreover, the insured person is also entitled to claim for child allowances, which amount to 150 baht per month per child.

According to the 1994 Workmen's Compensation Act, all employees in enterprises with ten or more employees are covered by the Workmen's Compensation Fund. The Fund provides benefits in cases of work-related incidents such as injuries or diseases, loss of organ(s), disability, death or disappearance. The problems faced by employees in private enterprises are as follows:

- Accident and injury rates among workers are still high.
- Employers fail to take responsibility for providing adequate protection against accidents and injuries in the workplace. In many cases, workplaces are still equipped with outdated machines, and workers are not given a warning about possible hazards in operating machines. Moreover, emergency measures and escape routes may be substandard or lacking.
- A worker injured in a work-related accident is in many cases forced to seek medical care and service at hospitals registered with the Social Security Fund, instead of claiming benefits from the Workmen's Compensation Fund. This is commonly due to the fact that most employers do not want to have cases (injuries, or work-related accidents) reported to the authorities. Enterprises with frequent accident and injury reports would be subject to inspection or monitoring.
- A great number of workers have had work-related illnesses, but they are misdiagnosed by physicians. The results are chronic illness without proper treatment. This situation is due to the lack of specialized training on the part of physicians and medical personnel.
- In case of disability or partial disability, or the loss of a limb, most of these injured are not able to fully claim benefits and compensation. This is due to the fact that the degree of disability is not clearly defined, according to the Act, for subsequent compensation.

2.1.2 Social Insurance and Savings Schemes

The Social Security Act was initially enforced to cover enterprises with 20 or more employees and extended to enterprises with ten or more employees on 2 September 1993. On 20 November 2001, the Thai Cabinet agreed to extend coverage to all enterprises with one or more employees. This agreement will be implemented on 1 April 2002. It is expected that a total of 9,490,000 workers will then be covered under the protection of the Social Security Act. It should be noted that workers in the informal sector and self-employed individuals are not included. This is because the implementation of the Social Security Act has not been extended to informal sector workers and the self-employed. At the same time, any person who becomes unemployed or resigns from his job can apply to become a voluntary insured person according to Article 39 of the Social Security Act.

However, the Social Security Act and Workmen's Compensation Act do not cover civil servants, other government employees such as soldiers, police officers, teachers,

and university staff, as well as workers in state enterprises. Instead, civil servants and workers in state enterprises are eligible for quite generous benefits in terms of pension and compensation by providing health care and services for self and family members (e.g. parents, spouse and/or children).

Regarding the Social Security Act, benefits are provided for insured persons, covering six types of benefits: illness or injury, maternity, disability, death, child allowance, old-age pension and unemployment. The provision to establish unemployment insurance has not been implemented. In case of emergencies and accidents, outpatients can be reimbursed for a maximum of two visits per year. Inpatients can get reimbursement for a maximum of two hospital stays per year. With regard to pension, an insured person will be paid an old-age pension benefit. The amount of pension benefits is calculated at the rate of 15% of the average wage of the last 60 months or 15% plus 1% per additional 12 months of contributions above 180 months.

Contribution to the Social Security Fund comes from employees, employers, and the government. According to the law, employers and employees each make contributions at the rate of 3% of wages to cover the six types of benefits. The government contributes at a rate of 2% of wages. Under such conditions, the employer has to deduct 3% from the wages of an insured employee as well as add his contribution (3% of wage) and pay the contributions of both within 15 days of the following month to the Social Security Office. Any employer who intentionally fails to comply with the Social Security Act (No. 2), 1994 is liable to imprisonment for a term not exceeding six months or to a fine not exceeding 20,000 baht (Friedrich-Ebert-Stiftung, 2002, pp. 53–54). However, since the Act was enacted in 1994, it was agreed that the designated 3%, 3%, and 2% contributions of the three parties are set as the goal. In 1994, when the programme was started, the contribution was only 1.5% for each of the three contributors. When the economic crisis hit, the contribution rate was dropped temporarily. Today the contribution rates stand at 3%, 3% and 2% for employees, employers and the government respectively. Workers not belonging formally to an enterprise such as the ‘self-employed’ and workers in the informal sector can become members and benefit from the Social Security Fund by making contributions for both employers and employees.

Employment is the most important form of social protection for workers. Prior to the crisis, Thailand did not have an unemployment insurance programme. In the aftermath of the crisis, the government began to consider introducing an unemployment insurance scheme for providing social protection to retrenched workers. However, it deliberately decided not to launch such a scheme due to some belief that it would run counter to traditional self-reliance and self-help. Moreover, many felt that a better government policy would be to set up initiatives to build up the capacity of communities and families so that they could help each other. After the crisis, the main features of the labour protection policy were as follows: First, the severance pay requirement was extended from six to ten months; second, a major job-creation or employment-generation programme was launched in the rural areas to absorb returning migrants; third, social security benefits were extended for laid-off subscribers from

six to twelve months and the tripartite contribution rate for such benefits was reduced by one-third. Moreover, pension and child allowance schemes were established under the social security scheme for private sector employees; finally, the government launched training programmes for upgrading the skills of workers laid off during the crisis (World Bank, 2000, p. 39).

For non-government enterprise employees, the Labour Protection Act of 1998 provides protection for unemployment in three cases:

(1) *Severance pay*. Severance pay is the money which the employer pays to the employee upon termination of employment, in addition to other categories of money which the employer agrees to pay the employee according to Section 5 of the Labour Protection Act 1998.

(2) *Provident Fund*. This fund is set up by both the employers and employees as protection for the employee in case of retirement, death, termination of employment, or termination of membership. The Provident Fund Act of 1987 states that the Provident Fund is voluntary and not required of all firms. Therefore, many firms do not establish a Provident Fund.

(3) *Employee Welfare Fund*. This fund was established to provide welfare for workers whose employment is terminated because of death or other reasons. The Labour Protection Act required that the Ministry of Labour and Social Welfare according to Section 126 establish an Employee Welfare Fund. The employee must be a member of the Employee Welfare Fund unless the employer has established a Provident Fund for the firm. Both employer and employee are required to make contributions to the Fund. In other words, workers should be protected by either the Provident Fund or the Employee Welfare Fund in case of termination of employment.

In the Ninth National Economic and Social Development Plan (2002–06), poverty reduction is recognized by the Thai government as a high priority area. A poverty eradication plan was drawn up in 2001. The Plan's goals are to provide equitable access to education and social services for the poor and disadvantaged. Key features towards these goals are (National Economic and Social Development Board, NESDB):

'Improving the capability of the poor and ensuring social security for the poor by urging formation of occupational and/or saving groups among the poor. Through these forums, the poor will be able to learn from each other's experiences, to make collective decisions, and to establish networks of community welfare. Non-government organizations, local education institutions, and religious institutions will be encouraged to play an active role in the poverty-reduction process. The very poor will be guaranteed basic necessities such as food, health insurance, and a living allowance. The state will also help improve productivity of the rural poor. In addition, the local economy will be enhanced, so that the poor can be self-reliant and have more job opportunities within their own localities. For the urban poor, emphasis will be placed upon access to education and health services, securing a livelihood by linking community businesses with industrial businesses at various levels, and ensuring a healthy living environment.'

2.1.3 Social Assistance and Services: Benefits and Transfers

Apart from the social security or social insurance system as described in 2.1.2, the government also offers additional social assistance and services (non-contributory). Social assistance and services may be classified into three categories: in-cash transfer programmes, in-kind transfer programmes, and income generation programmes. The concept of social assistance and services is to provide assistance to specific groups with specific problems.

(1) *In-Cash Transfer Programmes*. The Department of Public Welfare in the Ministry of Labour and Social Welfare operates several cash assistance programmes, such as direct cash assistance to needy families, monthly cash assistance to the elderly without any means of support, and village community funds. Significantly, two cash transfer programmes are described as follows:

(1.1) *Student Loan and Government Scholarship Programmes*. An Education Loan Fund for the student loan scheme was established in 1996. The eligible beneficiaries include students studying at upper secondary and tertiary private and public educational institutions with an income below 12,500 baht per month (World Bank, 1999).

These programmes existed prior to the crisis. But with the crisis, the government put in additional effort to strengthen these projects both financially and administratively. The loan from the Asian Development Bank to support scholarships for children in need proved to be less effective than expected. During the first year of implementation, the identification of poor students was not properly carried out and needed improvement. However, evaluation reports are not available at the moment.

With respect to primary health care service, the services have been provided to people in both urban and rural areas. Very poor people can receive health care services from government hospitals and health care centres. But services may be slow and not fully adequate. Programmes for health care include the following:

(1.2) *Monthly Cash Assistance to the Elderly*. The programme pays 300 baht per month, as a pension, to each elderly poor. This income is considerably less than the minimum subsistence requirements implied by the NESDB poverty line for the elderly, which averaged around 700 baht per person in the rural areas in 1997.

(2) *In-kind Transfer Programmes*. The in-kind transfer programmes include the School Feeding Programme, which is administered by the Ministry of Education, and the Medical Services operated by the Ministry of Public Health. The following programmes are described as in-kind transfer programmes:

(2.1) *School Feeding Programme*. There are two main programmes – a free school lunch programme and a supplementary food programme (school milk). The school lunch programme applies to children in primary school, while the supplementary food programme is provided to pre-primary students and primary students through to the third grade.

(2.2) *Health Programmes.* Before 2001, most Thai families participated in one of the many public health coverage schemes, ranging from free health services to beneficiary co-payment or premium payment. These schemes include the public assistance scheme, the civil servants medical benefit scheme, the compulsory health insurance scheme for formal sector employees, and the voluntary health insurance programme for the needy. After 2001, the low-income health card and voluntary health card schemes are replacing the 30 baht Universal Health Scheme.

- *Low-Income Health Card.* The low-income health card is the public assistance scheme. This scheme covers low-income adults, children under 12 years of age, the elderly (60 years and above), the disabled, monks and war veterans. The low-income card programme and is targeted at poor adults within the 13–59 year age group, with a budget of 273 baht per capita for a period of three years. These individuals are entitled to free health care at hospitals and public health centres. The low-income card is provided to poor adults with the income ceiling of 2,000 baht per month for a single person and 2,800 baht per month for a family.
- *Voluntary Health Card.* This programme aims to serve the near poor and those who do not have mandatory insurance, such as civil servants and formal sector employees. Health cards can be purchased at 500 baht with a 1,000 baht government subsidy. Not more than five persons in the family can benefit from the card.
- *30 Baht Universal Health Programme.* This health care programme gives everyone (except people who have mandatory insurance such as civil servants and formal sector employees) access to medical services, requiring each person to pay only a fee of 30 baht per visit. Very poor individuals can apply for a special card that grants them free medical treatment. The 30 Baht Universal Health Programme began as a pilot programme in April 2001 in only six provinces. Recently, it has been expanded to all 75 provinces and 13 districts in Bangkok. The remaining districts in Bangkok are to be included on 1 April, 2002.

(3) *Income Generation Programmes.* There are wage-employment creation programmes that are open to the population at large within a given area, such as the Rural Job Creation Programme, the Green Earn Programme, and the Tambon Development Programme.

2.1.4 Others

Moreover, family and community networks are traditionally seen as a safety net mechanism to provide necessary support if and when necessary. His Majesty the King adopted a strategy to promote the concept of ‘self-sufficiency’ at the family and community level. This concept has encouraged the government to focus more on rebuilding and consolidating social capital eroded by economic growth. Thus, the approach is aimed at strengthening the unofficial, community-based ‘safety nets’ (World Bank, 2001). Much support now goes directly to community-based organizations such as savings and credit groups, and women’s and children’s groups.

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

In Thailand, as in many other countries, there are no clear and standardized definitions of the informal sector in use currently. Informal sector workers are assumed to be individuals who work outside of 'conventional' office and factory forms of employment, and work without a regular contract.¹ The National Statistical Office (NSO) of Thailand uses criteria based on qualitative characteristics of the sector, and the number of employees (less than ten) to categorize workers and establishments as part of the 'informal sector.' By NSO definitions, more than 75% of Thailand's employed labour force is in the informal economy. The majority (52%) of enterprises in Thailand are informal enterprises and according to statistics issued by the NSO in 1997, 'employment generated by the informal sector in the manufacturing, trade and service sectors is approximately 3.5 times greater than that generated by the formal sector.'²

Moreover, as is apparent in the literature, the informal sector has been growing rather than shrinking in developing countries throughout the world, and there is a much higher proportion of women in the informal than in the formal sector, particularly in certain branches of the informal sector. In Thailand, for example, women constitute the great majority of workers involved in home-based production, particularly in the production of garments, textiles, food and beverages, and other goods that are made either in small neighbourhood home-based factories or in individual homes.

The following discussion will draw primarily from recent studies on home-based workers in order to illustrate certain points regarding the need for social protection. However, the general discussion will deal with concerns and programmes that apply to workers throughout the informal sector.

2.2.2 Problems and Features of the Informal Sector

The problems faced by informal sector workers have generally been invisible to policymakers in Thailand, as in other countries, until very recently. During the Asian

1 According to the criteria for informal sector activities developed by Sethuraman and the ILO in 1976, economic activities that can be classified under the informal sector under the following circumstances: family members work in a business; less than ten people are employed in a business; there are no legal regulations, or existing regulations are not observed; there are no regular working times; the workers have less than six years of schooling; the work is seasonal; no electricity is available in the workplace; and there is no dependency on regular loans. Although some of these criteria are not relevant to the Thai case (e.g. electricity is generally available in places of work in Thailand), the other features are not uncommon in the informal sector in Thailand. Some of these features are used by the NSO (in particular, the number of employees being less than ten, as discussed above). It should be noted that currently ILO publications refer to the 1993 (15th International Conference of Labour Statisticians) definition of an informal sector enterprise as 'a private non-agricultural business which is household-operated and has a total of, at most, five paid employees'. See for example, International Labour Organization (Bangkok), 'Decent work for all: Targeting full employment in Thailand', August 2000, p. 27. However, the ILO acknowledges that the 'less than ten employees' definition is also commonly used in many countries throughout the world.

2 M. Allal, 'Micro- and small enterprises in Thailand: Definitions and contributions', Working paper 6 for the ILO/UNDP Project on Micro- and Small Enterprise Development and Poverty Alleviation in Thailand, THA/99/003 (Bangkok, ILO/EASMAT). Quoted in ILO (Bangkok), *ibid*, p. 30.

financial crisis, for example, the impact of the informal sector was virtually ignored by most government offices in Thailand and by most of the large-scale development-oriented international organizations, as the focus was almost exclusively on the impact of the crisis on the formal sector.

This focus on the formal sector was true even of studies dealing with the 'social impact' of the crisis, particularly in late 1997 and 1998 when reports began to be written. A few analysts noted the impact of the crisis on the informal sector (and speculated about the impact without doing any actual empirical research); however, their general assumption was that the sector was doing reasonably well and could expand and absorb unemployed workers who had been in formal sector occupations. Moreover, some writers thought that the financial crisis might even be a 'golden opportunity' for women in the informal sector in Thailand, since they could now work more and 'take greater charge of the household finances.' Needless to say, this view did not go down well with women in Thailand, who were already working long hours for very little pay, and now faced difficulties keeping their family's real income from falling too sharply in the face of rising costs and falling earnings.

Besides being invisible to policymakers, informal workers in Thailand face other significant problems.³ Their primary problems are tied to their lack of legal rights and their lack of access to resources (capital, education, training, and others) that would give them more options. In addition, social and family constraints often limit women in particular to informal sector work.

Both work- and non work-related health concerns are also very important to informal workers in Thailand. For many, occupational safety and health and other risks are a big concern due to their unregulated and unprotected work. In addition to health hazards directly related to their jobs, low-income informal workers are also often exposed indirectly to environmental hazards associated with the physical locations in which they live and work (hazards associated with poverty, unsafe buildings, overcrowding, pollution, etc.). Among the most vulnerable informal workers are those who deal with garbage and waste processes or manufacturing processes involving the use of chemicals and other substances in an unregulated environment without any kind of protective measures or equipment. The poverty of so many informal workers forces them to ignore the risks and work in this way for as long as they can. They do not feel that they have the luxury of considering the hazards involved, at least until

3 Other problems often noted include the ideas that informal workers are non-legal and therefore outside the scope of official statistics and government regulation as well as labour and social protection legislation; have irregular workplaces and working hours; work long hours with low productivity; often have little training so that the chances of finding a job in the formal sector are low; face a lack of assets and capital and no access to the formal financial markets; face low entry barriers and growing competition when the informal sector expands, which in turn reduces the chances of making a living; often are in poor working conditions; and, as a rule, have no work safety and have no access to social security systems, among other concerns. (From FES-Singapore, Background Information for Country Studies on Social Protection, p. 14.) These features and problems are generally applicable to informal workers in Thailand at the present time, albeit with a great deal of variation across different occupations and industrial sub-sectors.

something dramatic happens – and then the work just goes to others, who do it in the same unprotected way.

Informal workers' risks also tend to be very high because their employment is often irregular and without enforceable contracts. They have no recourse if what they have produced is not accepted (in the case of subcontracting) or not sold at an acceptable price (in the case of self-employment). They have no job security or workers' benefits, and they are not covered by most labour legislation. In some cases, they may be subject to harassment, and they often face delayed payments of wages – and here again, they have no effective legal recourse, and so are forced to turn to relatives or moneylenders to meet immediate needs. Moreover, without access to new markets or resources, they may be left without options when conditions change, either due to declines in demand or supply, increases in costs, or other unpredictable events that endanger their assets and livelihoods.

In Thailand, the financial crisis exposed the vulnerability of this sector because it brought about sudden and dramatic reversals for large numbers of informal workers. Not only were they faced with rising costs of living and production and declining demand, but their invisibility also meant that they were largely left out of the 'social response packages' to the crisis. HomeNet, a NGO network working closely with homeworkers in the informal sector in Thailand, carried out a study on the impact of the financial crisis on homeworkers. The study showed that very few knew about the response package initiatives implemented by government and non-government agencies. Those who knew about them generally were not able to gain access to these programmes. For example, almost none of those surveyed were able to take advantage of the key Social Investment Fund initiatives that were devised in reaction to the crisis, at least in the initial years.⁴

In the years following the crisis, however, informal workers were able to benefit from some ongoing government programmes, particularly those sponsored by the Department of Public Welfare and other governmental and non-governmental organizations.⁵ They also benefited from a few other short-term programmes that eventually were formulated in response to the crisis (e.g. the Bangkok Metropolitan Authority's public works programmes for poor communities). Nonetheless, the crisis made it very clear that informal workers could not be expected to just fend for themselves. They could not easily find new job opportunities, and the sector could not expand to meet

4 HomeNet Thailand, 'Impact of the economic crisis on homeworkers in Thailand', International Labour Organization (Bangkok), January 2002. The Social Investment Fund (SIF), a World Bank loan in response to the financial crisis, aimed at providing financial support for community organizations with projects promoting income-generation, emergency and social support for the poor, environment and cultural preservation and community strengthening. Access to SIF appears to have increased in the period after the surveys were conducted. The main controversies remain (1) how much has actually reached informal workers, and (2) what the timing has been (i.e. the long delays in gaining access to these funds).

5 As an example of this, homeworkers (subcontracted home-based workers) in the artificial flower and garment industries in Thailand reported receiving a multitude of services from governmental and non-governmental organizations during this period, for details see Table 17, Appendix.

the needs of displaced workers. Moreover, as noted earlier, women in the sector did not generally find this a ‘golden opportunity’ for their own personal growth.

Instead, rising costs and declining demand throughout the country and the region had a very serious effect on informal workers. This included not only those in service but also in manufacturing sub-sectors, since their position at the low wage/low productivity end of their respective industries and occupations meant that they could not respond to export opportunities to countries not affected by the crisis, but rather had to face deteriorating conditions in local and regional markets. Many had to give up their regular informal sector employment to become casual workers under adverse circumstances. Moreover, those who were able to maintain orders or customers were often forced to work under even more hazardous conditions and for much longer hours to compensate for the significant fall in their real incomes.

In the wake of the financial crisis and subsequent economic downturns, it became clear that formal and informal workers also cannot simply fall back on family and community members for help, as the latter themselves have difficulty trying to cope with the dislocations of a troubled economy. For this reason, it has become apparent that social protection programmes need to be expanded, and extended to the informal sector. This idea had been discussed during Thailand’s high growth period, and at that time there seemed to be the political will to move in that direction. However, the financial crisis brought this momentum to a halt as government spending was cut back.

In the past year or two the issue of extending social protection to the informal sector has again come up, and new initiatives are being pursued in promising ways; how the current global economic slowdown will affect these new initiatives is as yet unclear. The following sections will discuss existing government and voluntary schemes that deal with the different aspects of social protection for informal workers.

2.2.3 Social Assistance and Services: Benefits and Transfers

In principle, there are many things *government agencies* at different levels (national, provincial, and local) can do to promote social protection for the informal sector. This could include such things as social insurance programmes to deal with unemployment, health, disability, old age, death, and other life reversals; social assistance and welfare programmes to cover particular groups; child protection (including child care) aimed at the welfare of children whose parent or parents work in the informal economy; and labour regulations and employment/income generating policies to protect against the uncertainties and hazards of work in the sector.

In Thailand, during the high growth years, there were serious discussions regarding the extension of labour and social protection programmes that are in place for formal sector workers (through the Labour Protection Law and the Social Security Act) to informal workers as well – i.e. to those working in establishments of less than ten employees, and who register with the Ministry of Labour and Social Welfare. In fact, the Eighth National Plan (1997–2001) originally projected that social security provi-

sions would be extended to the informal sector. However, with budget cuts in the wake of the financial crisis, these measures were put on hold. In principle, social security benefits were extended to all establishments with one or more workers as of April 2002. Despite great efforts to influence the government to extend social security provisions to the informal sector, this provision still does not cover workers in informal units (particularly unregistered ones).

In recent years, informal workers' access to the social security system has been, in principle, mainly through the 'self-employment' scheme in Thailand, as discussed above. This holds true even for subcontracted workers who are not self-employed. In reality, however, to obtain death, disability, maternity and accident benefits through this scheme, informal workers have to pay double premiums (one for themselves, and another for 'employers'), which places the programme out of the reach of most informal workers, who often earn less than the minimum wage. Moreover, this programme does not cover illness, which is the main need and concern of informal workers, particularly the large numbers who work in hazardous and unhealthy environments. Interestingly, in the case of subcontracted workers, employers/contractors deduct a withholding tax of 3% from the amount earned by workers, but the latter do not benefit from insurance plans sponsored by either the government or by employers.

For these reasons, most informal workers feel that the formal inclusion (beginning in September 1994) of the 'self-employed' in the social security scheme on a voluntary basis is something that is largely irrelevant to them. This is because even though the Social Security Office states that workers in the informal sector can be covered by the Social Security scheme by registering themselves as self-employed, they have to make two contributions on behalf of both the employer and employee. This option is not attractive to informal workers. In fact, the only really affordable *government-sponsored* social protection plans that low-income informal workers have had access to until recently are (1) the health card programme from the Ministry of Public Health, and (2) in a limited number of cases, the welfare programmes of the Ministry of Labour and Social Welfare and other ministries. However, these programmes are designed to aid impoverished families and individuals, rather than low-income workers in general.

With regard to the health system, which is a critical concern for informal workers, a 30 baht health scheme has been enacted that is promising but still largely untested, as it is being extended slowly throughout the country (see also Section 4 regarding innovative programmes). For most informal workers, the health plan in place until recently has involved participation in a voluntary health scheme (with 500 baht health cards that cover a family of up to five members); having a low-income health card ('low-income' here refers to an individual making less than 2,000 baht per year, or a family with an income of less than 2,800 baht per year); or having no coverage at all. Even in the case of health card holders, 80% claim that they would be in serious trouble if they became seriously ill. This is due in part to the referral system used in the programme that, it is said, may not give patients the care they need. It is also due

in part to the spending limits imposed for each patient.⁶ It is the hope of the government of Thailand, as well as the informal workers and their families, that the new universal health coverage plan – along with the one million baht revolving fund for villages (also discussed in Section 4), and new initiatives regarding occupational health and safety and other measures that are still in the pre-programme stage – will improve the government-sponsored provision of social protection to the informal sector.

2.2.4 Voluntary Schemes: Savings, Credit and Micro-insurance Schemes

Attempts involving organizations *outside of the government* to provide certain types of social protection to informal workers are extremely diverse, and they depend upon the type of informal worker and the geographic region. There are legal barriers to some types of voluntary social insurance and social welfare programmes such as the handling of community-based insurance schemes through cooperatives, and these barriers have inhibited their growth to some extent. Nonetheless, the financial crisis created a great deal of insecurity and turmoil throughout the country, and one of the reactions was the creation of many new voluntary programmes, particularly through community-based organizations (CBOs) and credit unions, among other organizations.

In fact, for decades villages in every part of the country have been setting up independent schemes to provide local people with social benefits. Depending on the village or CBO, the benefits may be in the form of medical, life/funeral, old age, disaster, education, or other benefits (usually a combination of these). In Thailand, the costs of funerals are high and are culturally and socially important; moreover, the costs associated with transportation to and from hospitals, particularly in rural areas, may be far greater than the costs in public hospitals. Funeral/life and medical (including transportation) costs are thus among the most important costs to be covered, along with survivor benefits, disability, and other concerns.

Because of the diversity of these local, voluntary programmes, we will note here only a few that have been discussed in some detail. Among credit union cooperatives, for example, the Soon Klang Thewa Credit Union has provided loans for middle- and low-income members, including informal workers, for decades.⁷ Similarly, the Sri Haruetai Klung Credit Union Cooperative offers savings and loan programmes, a children's education fund, and medical, maternity, death, disaster, and old age benefits as part of its welfare fund. The Klongprea Saving Group, the Praephan Group, the Maepruk Village Bank, the Noensai Saving Group, and the Urban Community Welfare Fund are also examples of self-help CBO-initiated groups that deal with saving and lending (micro-finance) services, small enterprise support, and welfare fund services (mostly related to medical, death, and old age benefits).⁸ Employment-based

6 This point was made in the Workshop Report of the ILO-STEP Technical Workshop on the Extension of Social Insurance and Assistance to Homebased Workers in Thailand, June 7–9, 2000.

7 Cf. HomeNet Thailand (*op. cit.*), Chapter Three.

8 Regarding these organizations, cf. Daonoi Srikajon, 'An approach to social protection schemes for home-based workers in Thailand.' HomeNet Thailand, March 2001. The author points out that there

groups have also experimented with mutual assistance and social insurance card schemes, among other approaches, in specific small-scale social protection coverage.

In each case, a certain amount is paid by members in order to maintain the group fund, and a group leader is appointed to manage the fund. Savings schemes operate in a similar way, with a specified amount (e.g. 20 baht per month) paid by all members each month. In some cases, e.g., for funeral expenses, all members contribute a specified amount upon the death of a group member. The contributions tend to increase as costs increase over the years.

Many of these programmes have been in place for up to 25 years, and although their coverage is limited, they have provided members with financial assistance when government programmes were completely out of the informal workers' reach. However, poorly managed local programmes, or programmes that suddenly face large amounts of unexpected costs or a serious drop in membership (e.g. due to an economic downturn or crisis) can suddenly collapse as the programmes simply run out of funds altogether. Other problems regularly facing local CBO-sponsored social insurance and assistance schemes include:

- the fact that low-income members may not be able to contribute much to the fund;
- the programmes may not at any point gain enough members to sustain the fund for long; and
- the local community may not have adequate information regarding the micro-finance- and micro-insurance-related experiences of groups in other parts of the country, which includes the practices that can either make schemes viable or lead them to ruin.

It is important to keep in mind that these schemes are almost never government-supported in Thailand. Moreover, it must be recognized that although the local, voluntary programmes can provide adequate coverage for some limited needs, they will not be able to meet the wide-ranging needs of informal workers for social protection. Given the uncertainties and lack of resources available to the majority of informal workers, it is clear that some combination of voluntary and government-provided programmes is needed.

2.2.5 Others

As in most developing countries, informal workers will turn first to family members and community groups for help in case of need, particularly in times of unexpected life upheavals (unemployment, death, illness). However, as the financial crisis made clear, family members and community groups are not likely to be able to help when

are over 40,000 CBOs in Thailand, with a capital flow of approximately 30,000 million baht. Not all of these currently have welfare fund programmes, but CBO-sponsored programmes are seen by many as a potential means of providing certain types of social protection that can complement (rather than substitute for) government-sponsored social protection initiatives.

they themselves are adversely affected by an economic downturn. Even in times of economic growth, low-income informal workers may not have sufficient family or community resources on which to draw, particularly when costs are high and needs are great.

There have been some accounts of informal workers, e.g. subcontracted workers, turning to employers for loans or help with illness or other difficulties.⁹ There may certainly be some employers that try to maintain family-like ties with their informal workers. However, it is unlikely that most employers will go very far for individual workers. In the case of homemaker groups in Thailand (groups of subcontracted home-based workers), it was found that some group leaders tried to protect group members from economic downturns or delayed payments as much as possible (e.g. by going to moneylenders themselves). However, once again, there is not much that group leaders can do for large numbers of individuals or individuals with sizeable needs. The situation is all the more difficult for migrant workers, given that they often lack family members nearby, and they are less likely to be members of community-based organizations. For all informal workers, it is clear that what is required is a combination of public, private, and personal means for dealing with times of need.

Fortunately, the informal economy has become somewhat less 'invisible' to policy-makers, and new initiatives have been proposed. A few of these will be discussed in Section 4.

2.3 Labour Market Policy

2.3.1 Active Labour Market Policy

The labour market policy in Thailand has been affected by the 1997 economic crisis and the economic recession of the past few years. The admission of China into the WTO has also impacted the labour market in Thailand. It was realized earlier that Thailand could no longer rely on unskilled labour. Programmes to provide technical training for semi-skilled and skilled workers have to be implemented. But this can be done only when the market and production trend is identified. Even the present compulsory education requirement is not sufficient to prepare Thailand for the future. The economic crisis has also created college graduate unemployment.

College graduate unemployment has been another labour market problem. There are many projects with the objective of creating employment, both short term and long term for fresh graduates. A new graduate employment programme hires new graduates to work on assigned community development projects for more than six months

⁹ Vagneron asserts, for example, that 'Many entrepreneurs help their workers financially (by paying them in advance) or when they are ill; this remains true no matter the size of the enterprise. Such family-like relations are more widespread among the small subcontractors making low quality products, but also because informal relations are necessary in order to soften the working conditions, which bear the mark of harsh competition, and are thus quite difficult.' In I. Vagneron, 'How can the situation on the domestic labour market shape subcontracting arrangements? Evidence from the garment sector in Thailand.' Workshop on Subcontracting Labour in Asia: Historical and Global Perspectives, Bangkok, 22–24 November 1999 (CLARA-IISH-IIAS), p. 11.

to support their families. However, with incomes below government wages, it is not clear what percentage of the hiring was truly 'productive' employment. Assessment needs to be made on a project by project basis. Since there are many different projects, project evaluation will have to be made separately.

Rural employment projects provide only 3,000 baht per person, too small an amount to have any impact on individuals or households. It is a short-term/one-time relief only. It was reported that for the fiscal year 1999, 7,856 persons were employed. Still, the amount is not substantial enough to have a significant impact.

With regard to skills development, there are many training projects in the Unemployment Mitigation Package. For the fiscal year 1999/2000, the following targets were identified: Children and women vocational training projects were aimed at 8,000 persons, homemaker leader projects targeted 7,500 persons, and vocational training as a prostitution prevention measure had a target of 2,500 persons. Most training programmes identified a number of trainees as the target. There is no output/outcome identified. Similar to the employment creation projects, 'productive training' should be the objective of all training programmes/projects, not the mere number of those who attended the sessions. This is especially important for the computer training projects implemented. Preliminary assessment indicated that computer-training projects need a special design and should include post-project activities to ensure a successful outcome. Post-training evaluation in the form of beneficiary satisfaction is needed to evaluate the training projects. One indicator is the ability to use the skills learned in the training projects to earn income.

Regarding the minimum wage, it is largely set up by two tripartite mechanisms, namely the National Wage Committee and the National Labour Department Advisory Council (NLDAC). With this process, workers have relied on national wage decisions rather than seeking enterprise-based social dialogue through trade unions and collective bargaining. This could be a factor determining efforts towards labour organization because some of the incentives for trade union membership are diminished.

The government is promoting international labour migration to provide employment opportunities for those who are willing to travel abroad to earn a living. Training programmes to prepare workers are being considered. At the same time, labour attachés stationed in other countries are actively seeking employment opportunities for Thai workers.

Foreign workers are allowed to work in Thailand only when permits are granted. Official channels are created to reduce the number of illegal foreign workers and expand the labour market for Thai workers. This programme is not very popular among employers because they prefer foreign workers. This sector involves low unskilled workers, which the Thai people are not willing to allow into the country.

2.3.2 Passive Labour Market Policy

The 1997 Constitution provides the foundation for reforming the education system by giving all Thai citizens the right to 12 years of publicly financed education as

evident in the 1998 National Education Act. Currently, the average educational level of the labour force in Thailand is at the primary level of education. The primary and secondary education systems will need to change to support the development of a flexible workforce. A 'learning-to-learn' approach has become more widespread, with students researching their own information and learning to work in teams. At the secondary school level there should be greater efforts to expose students to the world of work, using systems such as the school-to-work programme.

In the context of a passive labour market policy, the implementation and operation of the Labour Protection Law is generally low. According to the Labour Force Survey in August 1999, 15% of Thai workers reported being protected by the Labour Protection Act. Large enterprises (with more than 100 workers) follow the law fully. Workers in large establishments have near-universal coverage (91%), while only 43% of employees in medium-sized establishments (10–99 employees) are covered (World Bank, 2000, p. 42). Small enterprises are not covered under the Labour Protection Act at the moment.

With respect to the implementation of a minimum wage policy, there are a large number of workers earning less than the minimum wage in Thailand. For instance, Labour Force Survey data indicate that, in the third quarter of 1999, 3.6 million workers (about 30% of all wage employees) earned a wage that was less than the minimum wage (World Bank, 2000, p. 34). However, there are wide regional variations in the proportion of workers earning less than the minimum wage. As would be expected, Bangkok has the smallest proportion of workers earning less than the minimum wage (15–20%), followed by the Southern and Central regions (23–25%). In addition, private employees are also paid less than the minimum wage. Among private employees, it is mostly those who work in small and medium enterprises that are at risk of being paid less than the minimum wage. Data on labour inspections published by the Ministry of Labour and Social Welfare (1999) confirm that 14% of small and medium enterprises were found to be in violation of the minimum wage laws in 1998.

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage¹⁰

Unemployment Protection

The question is whether the existing laws are adequate to provide unemployment protection for workers, but since the existing laws are not fully operational, the answer cannot be given at this stage. One difficulty in answering the question lies in the fact that only six of the seven unemployment benefits provided in the existing Social Security Act have been implemented. It is therefore clear that the existing Social Security Act has not adequately provided for unemployment coverage. Coverage for other

¹⁰ Pongsapich, 2001, pp. 18–20.

benefits is usually satisfactory. The expansion of the number of people in the programme is therefore necessary. The question then is whether the Labour Protection Act provides unemployment protection for retrenched workers, i.e. whether severance pay and a provident fund (or Employee Welfare Fund) sufficiently cover unemployment benefits. Here, the difficulty lies in the implementation and operation of the laws. At present, especially because of the financial crisis, severance pay and a provident fund (or employee welfare benefits) are not provided for employees in all cases. Many firms are still not following the law in providing severance pay to retrenched employees. Many firms have neither the provident fund nor registration with the Employee Welfare Fund.

Coverage in Case of Subcontracting

The implementation of Section 12 of the Labour Protection Act, 1998 is also problematic. In the case of subcontracting, employers must make subcontractors at all levels responsible for providing benefits to their employees. In reality however, both the employers and the subcontractors ignore the law and therefore employees of subcontractors are not protected. Section 12 states: In cases where the employer is the subcontractor, all subcontractors of all levels along the line, if any, to the primary contractor shall be jointly liable with the subcontractor who is the employer for the payment of wages, overtime pay, holiday pay, holiday overtime pay, severance pay, special severance pay, accumulated funds, contributions, or additional payments.

The primary contractor or the subcontractors under paragraph one shall have a right of recourse against the subcontractor who is the employer for refund of payments already made pursuant to paragraph one.

In reality, one finds that protection in case of subcontracting has not been recognized in Thai society, regardless of what the law states. No employer takes responsibility for the protection or welfare of workers who are not directly employed by the company. Almost all companies treat subcontractors as service providers, exchanging services for fees. This arrangement does not recognize that services involve workers at all. Therefore, regardless of the law, there is no social protection in the case of subcontracting in Thailand.

Exemptions from the Provision

In addition, the Labour Protection Act 1998 also allows certain works to be prescribed differently from the provision of this Act. Section 22 states: Agricultural work, sea fishery, loading or unloading of goods on sea vessels, work to be performed at home, transport work and other work, as prescribed in the royal decrees, may be prescribed differently from the provisions of this Act, in the ministerial regulations for the labour protection in these various cases.

Additional prescriptions for the different kinds of work identified in Section 22 have been announced under ministerial regulations except for agricultural work and work to be performed at home. 'Work to be performed at home' is a form of subcontract-

ing. Therefore, it is clear that homeworkers and subcontractors are not sufficiently protected under the present Labour Protection Act.

Protection coverage under the present schemes is therefore insufficient. The Social Security Act needs to be implemented in full and coverage for subcontractors and homeworkers needs to be clarified. In addition, monitoring of the implementation and operation of the existing laws need to be carried out more seriously.

Reasons for Termination of Employment

The Labour Protection Act, Section 75 allows for the temporary termination of the operation of a firm if acceptable reasons other than for *force majeure* are given. Sometimes, employers claim lack of new orders for temporary termination of production to lay off workers. This means that employers have the leeway to get out of paying for compensation. Section 75 states: In the case that it is necessary for the employer to temporarily halt its operations wholly or partially for any cause other than for *force majeure*, the employer shall pay the employee at least 50% of the normal working day's wages that the employee received before the cessation of operations for the entire duration of the period during which the employer does not allow the employee to work. The employer shall give notice to the employee and the labour inspection official in advance prior to the halting of operations under paragraph one.

On this issue Chalit Meesit makes three observations (Chalit Meesit, 1999, pp. 15–16):

- Many employers use Section 75 to argue for temporarily halting production, reducing employees' pay by 50% and reducing other operating expenses by curtailing benefits for employees.
- If employees do not agree to the 50% pay cut and decide to terminate employment, employers need not provide severance pay.
- If temporary halting of operations is due to a financial crisis, not because of technical and complex problems; and if the problem cannot be solved after temporarily ceasing operations, termination of employment may be necessary. But some employers prefer to use Section 75 of the Labour Protection Act to avoid severance pay.

In effect, employers have been able to reduce the wages of workers and create underemployment conditions in order to solve their financial crisis. The question of reasons for termination of employment by employers is an issue that was heavily debated during the economic crisis. Many employees feel that they have been treated unfairly. But because the crisis created an unusual environment, employees have been agreeing to unemployment benefits at a value lower than normal or agreeing to be underemployed instead of unemployed.

3.2 Feasibility

With respect to the social security system, some deficiencies in management are noted, in particular to medical care and services. Insured persons who are under the system are generally not entitled to select their own preferred hospitals for treat-

ment. In most cases, employers often choose hospitals for their employees. Apart from this, it is found that many hospitals continue to make excuses to deny treatment or delay medical attention in cases of emergency or serious injury.

With regard to unemployment, the government has been reluctant to launch an Unemployment Insurance System. Therefore, regarding the benefits identified in the Social Security Act, unemployment coverage should also be considered. The proposed scheme for unemployment insurance is to ask for an additional 5% contribution from the three parties (employees, employers, and government). Implementation of this scheme awaits legislative and political procedures before finalization.

Currently, much debate is focused on how the existing social protection systems in Thailand should be improved. The following considerations should be made to improve management. First, the Social Security System should be extended to those employed in the agriculture sector. Second, the government must not draw money from the Social Security Fund for the 30 baht Universal Medical Care Fund because it would not be fair to both the insured workers and employers who have made contributions to the Social Security Fund. Third, insured workers must be given adequate information so that they are able to make informed choices about hospitals. Fourth, stringent measures must be imposed on hospitals in case of their refusal to provide proper medical care and treatment to insured workers, or their demand for medical fees from insured workers. Fifth, workers should have a participatory role in the Medical Board, the Appeals Board, the Workmen's Compensation Fund Board, and the Social Security Board. Finally, civil society organizations (CSO) should play an active role in monitoring and in the evaluation process, in particular in the 30 Baht Universal Health Programme, as this project is implemented in a top-down manner.

At present social protection schemes need to be carried out by government agencies. Civil society groups can only monitor the implementation process and efficiency of the programmes. In the future, if the decentralization processes achieve their goals, local governments may have the capacity to manage some of the social services and social assistance programmes. At the moment, this situation is far from being a reality.

Since unions are weak in Thailand, their achievements are few. Their immediate goals are to push for unemployment coverage. Progress will be made when the present government is receptive to the proposal to consider unemployment coverage. But it is not near finalization. Other social protection schemes are not being initiated by the unions since workers in the unions are covered under the same social scheme and enjoy the same benefits as workers in the formal sector generally do. Some schemes are fragmented and provide very small benefits to workers in the informal sector (together with the general population of Thailand). Support for the elderly is being advocated and the government is considering the second long-term plan for the elderly. These plans are advocated by civil society groups.

3.3 Financial Sustainability

With respect to financial sustainability, some programmes are not economically feasible or sustainable, even though they may be socially appropriate and necessary. An

example is the voluntary health card programme. The cost of health care per card is 2,138 baht, but the card is sold to the public at 500 baht per card and a government subsidy is continually required. The Ministry of Public Health, therefore, is in the process of designing different health service and assistance programmes. The 30 Baht Universal Health Programme is being implemented and scrutinized by the people, the media and academics. Financial sustainability of the 30 baht scheme is being questioned. Preliminary analysis suggests that financial sustainability will not be possible.

On the other hand, many of the unfeasible and unsustainable programmes have been abandoned. For example, the fishing enterprise promotion for returned migrants proved to be unsuccessful when returned migrants had no intention of adopting fishery as an occupation. Another example was the programme of promoting short-term employment in the form of daily wages. These programmes only provided jobs for a few days; hence the problem of unemployment was not solved. Therefore, these types of programmes need to be redesigned with the aim of providing 'productive' employment.

At the moment, financial sustainability of the social security scheme by itself is reported to be achievable. But if part of the social security fund is transferred to support the universal health coverage scheme, sustainability will not be achieved.

Other social services and assistance programmes are supported by the annual government budget and are not self-supporting. Therefore, the issue of financial sustainability is not applicable. In general, social protection programme financing is being studied and there is much debate among those involved.

3.4 Gender Equity

According to the Social Security Act, there is a slight difference in coverage between men and women. This difference is observed in terms of maternity benefits, which are specifically provided for female employees in the formal sector. However, different standard benefits between female employees in the formal sector and those who work in the informal sector and homeworkers are recognized. For example, the law gives women in the formal sector the opportunity to request for social security, whereas those in the informal sector are mostly left without protection.

In terms of access to training, it is difficult to assess women's access to workplace-based training because of unavailable data. However, discrimination against women is reported. According to ILO data (ILO, 2000), employers are often reluctant to provide training for women. The employers simply cite that a woman is unreliable since she will resign after getting married and having children.

The Labour Protection Act of 1998 stipulates equality in wages for males and females for the same kind of work. Practically, wages for men are 15–20% higher than those for women in Thailand. According to the Social Monitor IV, the wage gap between men and women narrowed to about 14% during the 1997 crisis. However, by the third quarter of 1999, with recovery underway, the male-female gap had increased

to 19%. This illustrates that the structural problems in the labour market continued to prevent women from earning more. The law also offers protection to female employees against sexual harassment. However, there are some problems with the enforcement of the law. For instance, protection does not cover women outside the industrial sector and also the definition of sexual harassment defined in the 1998 Labour Protection Act needs to be strictly enforced. Several provisions by the Labour Protection Act to protect women are not effectively implemented. Therefore, discrimination against women is still seen at work and in society as a whole.

The glass ceiling is still very much evident in Thailand. Only 20% of high-ranking personnel in government offices, state-enterprises, and the private sector are women.

3.5 Costs of Administration

Costs for staff and administration related to the amount of money allocated and spent by the government for social protection are considerably high. According to the Bureau of Budget, 15.2% of the budget in fiscal year 2001 allocated for the Ministry of Labour and Social Welfare went into employees' salaries and wages. For the Ministry of Public Health, 49% of the budget was spent on salaries and wages. Moreover, 66.2% of the budget allocated for the Ministry of Education went to salaries and wages (see Table 13–15, Appendix). Many comment that the costs for staff and administration of the three above-mentioned ministries are not reasonable considering the availability, coverage and the duties performed by the administration. These people support the argument that public bureaucracy in Thailand has grown too big and costly to maintain. Overall, about 42% of the budget now goes towards the salaries of public sector employees. Besides being too large to be affordable, the public bureaucracy has proven to be inefficient. Therefore, bureaucracy reform should be implemented so that it becomes smaller in size and more performance-oriented. At present, Thailand is facing a number of problems; especially after the crisis, people demand more services from the government. The challenge is how these services are to be efficiently expanded.

3.6 Targeting

Generally, social security or welfare for civil servants and state enterprise workers is not based on the principles of the Social Security Act. The civil servant or employee does not pay any contribution to the fund. Instead, the state covers all expenses. These funds come directly from the government's budget, which is allocated by the Ministry of Finance and the Bureau of the Budget. In the private sector, firms with ten or more employees contribute as follows: Employees, employers, and government each contribute to the Social Security Fund at a rate of 3%, 3% and 2% respectively. The goal is to increase the contribution of employees, employers and government to 4.5%, 4.5% and 2.5% respectively. The revised rates will start on 1 January 2003.

Before the crisis, it was felt that the social protection system in Thailand was adequate. In the formal sector, the Social Security Act and the Labour Protection Act

were in place to provide coverage. The protection system was established according to scope, size, and desired objectives. Limited protection was identified to minimize cost for employees, employers, and government. As a result, coverage and compensation were also limited.

During the crisis, great efforts were made towards economic recovery and a comprehensive plan for social protection programmes. The poor, unemployed and vulnerable groups were to be included into the social protection programmes.

However, a major problem in the social protection system, in particular in health care and educational assistance services programmes, has been the target problem. For example, there is no agreeable target criterion for identifying the poor. Many have criticized identification of the poor in quantitative terms by using the poverty line concept. Due to the lack of database information on the poor, identification of projects and desired beneficiaries has proven to be difficult. Scholarship projects are an example. These projects were criticized for not reaching those who really needed the scholarships. However, when students whose parents earn incomes of less than 120,000 baht per year were considered, it was found that 90% of students who were granted scholarships came from families with incomes of less than 50,000 baht per year.

Similarly, in training programmes, identification of trainees also requires careful planning. Computer training programmes proved to be inappropriate and did not respond to the needs of those targeted, i.e. the poor and unemployed graduates. Instead of providing training service for retrenched and unemployed persons, regular students became trainees instead. Voluntary health cards also ended up with the general public and not the needy. Graduate volunteer projects did not focus on poor graduates and recruited regular graduates instead.

3.7 Accountability & Transparency

In Thailand, the Constitution requires the State to decentralize service delivery and financing to local authorities. It is argued that decentralization can result in increasing efficiency because local level governments have better information regarding local needs and preferences. Furthermore, decentralization strategies and mechanisms can bring about poverty reduction. Currently, the progress of decentralization in the country has been slow. Participation of civil society at the local level in the decision-making and monitoring processes still needs strengthening. In terms of allocating money to social protection, in particular to social assistance and services programmes, the role of civil society organizations has actively increased since the crisis. Corruption and personal or political gain are discouraged, while transparency and accountability are being highlighted. The media has also played a very important monitoring role in the implementation of social assistance and services programmes (i.e. village funds, the 30 Baht Universal Health Programme). Through many channels, the public has been told of the mismanagement or misuse of certain funds, resulting in an ever-growing demand for transparency.

4. Development of Innovative Programmes and Alternative Social Protection Schemes

In Thailand, a number of new ideas regarding social protection are currently being explored and, in some cases, put into practice in the form of both government-sponsored and locally-based initiatives. We will note a few of these new programmes, focusing in particular on the 30 Baht Universal Coverage Health Plan and government initiatives regarding occupational safety and health; the one million baht assistance to villages (to the extent that this may tie in with social protection concerns); and new micro-insurance ideas coming from CBOs and other organizations and networks.

As noted previously, there have been long-term discussions in Thailand regarding the need to extend legal and social protection to the informal sector. In fact, expectations that this would be done were raised, up until the time of the financial crisis. In the past year, these ideas have been pursued again, along with such proposals as the provision of universal health coverage by the end of 2001. However, the economic slowdown beginning in late 2001 has again raised questions regarding when these changes will be made, including whether there would be adequate financing and, of equal importance, enforcement of these measures.

Even though these changes have not yet fully materialized, the new government in Thailand did initiate a number of programmes that have a potentially significant impact on social protection for informal workers. The first is the 30 Baht Universal Coverage Health Plan. The idea behind the plan is to provide health care services for all, with a charge of 30 baht per patient per visit. Although there was early criticism that the programme does not focus enough attention on preventive health and has other serious funding and referral-related drawbacks, the programme is evolving over time and is attempting to place more emphasis on prevention and adequate care for all patients. At the moment, expectations are high for the new universal health coverage plan, but there are worries as to whether the system can maintain a high standard of medical care. Again, it will be interesting and important to see how this innovative government programme evolves in the future.

Another aspect of the health issue is the growing focus on problems associated with environmental and occupational safety and health. One such new government initiative, the WISE (Work Improvement for Small Enterprises) project involving the Thai government and the International Labour Organization, along with local NGOs, has, at the moment, limited scope as an experimental programme. But it is expected that the project will be extended to different parts of the country in the future.

Another well-known initiative on the part of the present Thai government is the One Million Baht Village Fund Policy to assist community-based activities. It is an innovative programme, and the plan centres on a one-time revolving fund given out to each of the 70,865 villages and approximately 2,000 urban communities. Its primary use is to extend credit at low interest rates, with a priority placed on education, debt repayment, and investments. It will be overseen by the Government Savings Bank, and is expected to promote small and medium enterprises, among having other uses.

Besides potentially helping the employment generation and stabilization aspect of social protection, part of the village fund could potentially also serve as a means of government support for, or else complement, the welfare fund programmes run by CBOs. As noted above, at present the CBO-initiated programmes are not financially supported by the government (e.g. through co-financing). If part of the One Million Baht programme funds were used in a way that would help provide this support, it would satisfy the desire of many to see good locally-sensitive community-based welfare programmes gain the strength that only government participation can provide.

In addition to government-sponsored programmes, a number of provincial and local CBOs, as well as employment-based groups (e.g. networks or organizations representing informal sector workers) are also pursuing new strategies to ensure social protection to community members. For example, the Urban Community Welfare Fund's micro-insurance scheme is seen as a promising programme, in large part because it is supported by the Urban Community Development Office, which is now called Community Organization Development Institute (CODI), and thus may represent a blending of government and local CBO strengths. Another interesting initiative involves local organizations working with private insurance companies to set up micro-insurance schemes. As an example, HomeNet North, a network of homebased workers in the Northern region of Thailand, has been negotiating with several companies. These companies offer members fixed life, accident, disability and hospital insurance packages at a premium of 2,000 baht per person annually. Although HomeNet North would ideally like a programme that costs only 50 baht per person per month, this approach to micro-insurance is very promising and needs to be studied further.

The Bank of Agriculture and Agricultural Cooperatives (BAAC) has also established programmes in rural areas that are worth studying in more detail. In addition to offering loans and other financial support, the BAAC has developed a micro-insurance scheme to help provide for funeral costs. Members of the bank, those who have a savings account or have taken out a loan, pay a fixed rate. Because these programmes have a large number of members, the payment to the family of the deceased can be substantial, and they can thus be very helpful to a family in need. These and other innovative ideas should be studied to see whether similar programmes could or should be duplicated in other parts of the country.

Regarding employment generation and stabilization programmes to help informal workers as a form of social protection, the Bangkok Metropolitan Authority initiated an innovative public works programme that was specifically designed to help poorer communities. Low-income informal workers did benefit after the economic crisis from this and similar public works programmes. However, it is not clear if there is a political will to keep these programmes going beyond the immediate post-crisis years. More general skills-training programmes have continued, but these are not always designed in a way that will benefit specific groups of informal workers. Moreover, the country has not yet been able to plan for the continuing decline of labour-intensive industries in the face of new international competition, and it is the labour-inten-

sive industries that employ many informal workers. More comprehensive approaches to education, access to resources (financial, marketing, and others), training, and related concerns will be needed.

5. Policy Recommendations

The following recommendations are not original, nor is the list exhaustive. However, these recommendations represent commonly held ideas (from the viewpoint of organizations of and representing informal workers) about social protection in Thailand.

- It is important to extend both *labour and social protection* to the informal economy. If necessary, this can be done in stages (e.g. starting with subcontracted workers who have an employer/contractor, and then progressing to the self-employed and other categories of informal workers), but preferably this would be done all at one time.
- For subcontracted workers, a clear *legal relationship* between employers (contractors) and subcontracted workers needs to be established, identifying their mutual obligations. Part of this will involve having employers (e.g. company or factory managers) register the informal subcontracted workers they employ either on or off the premises. The employers should then make social security contributions for these workers, either in a form similar to that for formal workers, or as a fixed amount per informal worker employed, payable into a general fund administered by the government for informal employees and their families.
- Certain *laws regarding social protection* in Thailand need to be amended, e.g. to easily allow community-based insurance schemes administered through cooperatives.
- Regarding *health policies*, the Thai government should continue moving toward adequate universal coverage, and should monitor and improve over time upon the 30 baht health policy. An immediate need is to inform particularly the low-income individuals and families that could most benefit from the plan. Other concerns centre on the referral system (where smaller health centres transfer patients to larger centres with better health services, relying exclusively on the judgment of local health practitioners to determine whether specialists can be seen) and the quality of care and benefits available through the plan. However, since this is a new programme, these aspects need to be evaluated carefully.
- The government, along with non-governmental, private sector, and other national and international organizations, should continue working toward the implementation of better policies and institutions that deal with *occupational safety and health*. Among other efforts, these institutions should help monitor current conditions, using readily accessible information about safety and health problems and their causes, and help create and enforce new legislation and programmes that try to find effective ways to deal with hazardous conditions in the informal economy.

- Governmental, non-governmental, private sector, and other national and international organizations will need to coordinate their activities and focus very clearly on *education, training, and employment generation and stabilization* activities for informal workers, particularly those in declining industries and services. With respect to employment generation as a means of ensuring social protection: there is a serious need to consider long-term trends regarding informal sector employment, and to ensure that the educational and training systems meet the needs of these workers in a rapidly changing national and global economy. As a minimum, there is a need to recognize that the low wage/low productivity work in which very large numbers of informal workers are currently engaged in is not likely to continue in Thailand in the future.
- Connected to education, training, and employment initiatives is the need for adequate *childcare and child protection, as well as access to information, transportation, and other resources* (e.g. loans, insurance, and other financial services) for informal workers and their families in order to allow them to move into new productive areas of employment. Government financing or co-financing of some of these programmes and activities will be important, at least in the initial stages until the programme or fund is strong enough to operate without any government backing or support. In addition, a stronger database regarding who is in informal employment, where these workers are, what their skills are, and what their primary needs are, is always important information to have in order to facilitate re-training and a shift in employment.
- **In a more general sense, the government, along with the non-governmental, private sector, and other national and international organizations will need to work together to develop a multifaceted system of social protection that meets the varied and diverse needs of different subgroups within the informal sector.** Government programmes, private sector offerings, CBO-sponsored initiatives, and other measures (e.g. sponsored by NGOs or international organizations) are not in any way mutually exclusive, and each has its strengths and limitations. The exact combination of programmes that is most appropriate for a particular group, family, or individual will vary according to very specific needs and circumstances. Such initiatives as government and/or NGO co-financing of CBO-sponsored forms of social protection (and assistance with the design and administration of such programmes) are also desirable, at least in the initial stages.
- **Finally, it should be emphasized that the promotion of informal workers' organizations will help substantially in carrying through these policies in an effective way.** It is clear that informal workers who are not organized generally do not have effective access to the programmes that are already in place. Informal workers' organizations and networks can help disseminate information, reduce the sector's overall invisibility, and act as a voice for informal workers who would not otherwise be heard. Informal workers' organizations can also help administer some aspects of social protection plans for their members. The size of the organization, and the strength and commitment of its members and its leadership are

very important considerations in determining how successful the organization will be; for instance, whether it is a 'group' in name only, or whether the members and leaders have long-term commitments to the organization and to each other.

These are a few of the recommendations that come up regularly in discussions about social protection and the informal economy. The details of proposed plans and approaches to social protection vary widely, but it is clear that something needs to be done. Informal workers are currently legally unprotected against reversals and even the more predictable changes in the life cycle (e.g. old age and death). These problems become very severe as industries, and the economy as a whole, suffer declines.

Particularly because the financial crisis exposed the vulnerability of informal workers along with the critical need for this sector, it has become clear that a great deal must be done for this growing and very important segment of the workforce in Thailand. **This will involve helping to promote membership-based informal workers' organizations and networks, and it will involve public, private, and 'third sector' (local and international NGO/civil society) organizations and institutions working together to implement programmes that reach informal workers and meet their needs for social protection as effectively as possible.**

For formal sector employees, the policy recommendations are as follows:

- The role and impact of the Social Security Act and the Labour Protection Act need to be assessed to identify effective and ineffective measures and make recommendations on the necessary improvement strategies required.
- Since not all aspects of the two Acts are in operation, and because of the economic crisis, a revised implementation plan to bring about the full implementation of the two Acts is necessary. Three items which have been identified are:
 - Extension of protection coverage to firms with less than ten employees. The cabinet has now adopted this policy and the extension will be effective on 1 April 2002.
 - Extension of protection coverage to employees in the agriculture and subcontracting/homeworking sectors.
 - Implementation of the unemployment protection scheme of the Labour Protection Act.
- Consider the social safety net programmes introduced by the government during the crisis and identify alternatives to incorporate them into the regular social protection schemes already in existence. The additional budget allocation for the social safety net programmes should be considered as a possibility to increase the budget for regular social protection programmes.
- A study on expenditures on all social protection programmes of the government should be carried out. This should include expenditures of all sectors on social security, social welfare, social services, skills development programmes and other employment-related activities. The findings from this study will complement the

above recommendation and provide the basis for a comprehensive programme for employment promotion for the whole country.

- Consider projects of programmes that can absorb unemployment from large enterprises through subcontracting. The possibility of linking large enterprises to small enterprises with adequate unemployment protection will help relieve hardship of the retrenched workers. Coordinating mechanisms to link together different size firms which allow for flows of workers from one level to another may provide flexibility, which may reduce the impact of the crisis to a certain degree. Special efforts should be made to find alternatives to protect workers in agriculture and subcontracting work.
- Carry out a feasibility study for the establishment of a loan fund to support investment of small enterprises in connection with the above recommendation. Alternatively, establish a loan fund to be operated similarly to the Bank of Agriculture and Agricultural Cooperatives for small enterprises. Commercial banks are not willing to grant loans to small and medium enterprises in the current economic environment. Special programmes need to be initiated. The existing loan programme for vocational training for retrenched workers may be reviewed and considered together with the policy to promote investment in small and medium enterprises.
- Improve the social protection management system through the establishment of mechanisms for:
 - Database on unemployment, employment, and labour projection schemes to provide the government and the public with a good warning system against unemployment.
 - Establish a Management Information System that can monitor the employers' labour practices as well as actual benefits received by employees. Job-seeking behaviour of those receiving unemployment benefits should be monitored. This is to prevent misuse or abuse of the laws on either side.
 - Establish a coordinating mechanism which allows for flexibility for flows of workers between large enterprises and subcontracting units as well as small enterprises.

Appendix

Table 1: Population Projection by Age and Sex (thousand)

Age group	2000			2016 ^{Estimate}		
	Total	Male	Female	Total	Male	Female
0-4	4,387	2,267	2,120	4,099	2,083	2,016
5-9	5,031	2,611	2,420	4,301	2,181	2,120
10-14	5,203	2,621	2,582	4,634	2,348	2,286
15-19	5,341	2,709	2,632	4,917	2,498	2,419
20-24	4,932	2,463	2,468	4,813	2,463	2,350
25-29	5,248	2,536	2,712	4,763	2,429	2,334
30-34	5,449	2,605	2,844	4,976	2,526	2,450
35-39	5,387	2,616	2,771	5,542	2,798	2,744
40-44	4,850	2,386	2,464	5,708	2,857	2,851
45-49	3,877	1,916	1,961	5,783	2,881	2,902
50-54	2,915	1,417	1,498	5,370	2,672	2,698
55-59	2,284	1,095	1,190	4,495	2,197	2,298
60-64	1,998	946	1,052	3,489	1,650	1,839
65-69	1,526	705	821	2,438	1,119	1,319
70+	2,189	958	1,231	4,568	1,922	2,646
Total	60,617	29,850	30,767	69,896	34,625	35,271

Source: Office of the National Education Commission, 1999 and NSO, 2000.

Table 3: Projections on Population and Urban Population Ratio by Region, 1995–2010 (million)

Population	1995	2000	2005	2010
Whole country				
Total	59.4	62.4	65.0	67.2
Urban	21.9	25.8	30.6	35.3
Rural	37.5	26.8	34.5	31.7
Percentage urban	36.9%	41.0%	46.9%	52.8%
Bangkok	8.0	9.1	10.3	11.5
Vicinity	3.3	3.6	4.2	5.0
Northeast				
Total	19.4	19.9	20.0	20.1
Urban	3.4	4.5	5.9	7.5
Rural	16.0	15.4	14.1	12.6
Percentage urban	17.5%	22.6%	29.5%	37.4%
South				
Total	7.8	8.2	8.6	8.7
Urban	1.5	1.7	2.0	2.2
Rural	6.3	6.5	6.6	6.5
Percentage urban	19.1%	20.8%	23.2%	25.2%
North				
Total	10.9	11.1	10.8	10.6
Urban	2.6	3.0	3.4	3.7
Rural	8.3	8.1	7.4	6.9
Percentage urban	23.8%	27.1%	31.6%	35.0%
Eastern Seaboard (2)				
Total	5.8	6.3	6.9	7.2
Urban	2.0	2.7	3.5	4.0
Rural	3.8	3.6	3.4	3.2
Percentage urban	34.5%	42.9%	50.7%	55.6%

Source: NESDB, 1997.

Table 4: Rate of Illiterate Population (age 15 years and over) by Sex (percent)

Year	Female	Male	Total
1985	15.5	6.7	11.1
1990	8.8	4.4	6.7
1994	9.4	3.9	6.7
2000	9.0	4.6	6.9

Sources: NSO, 2001b; NSO, 1994; NSO, 1990; and NSO 1985.

Table 5: Gross Enrollment Ratio by Sex and Level of Education (percent)

Year	Pre-primary			Primary			Secondary			Tertiary		
	F ¹	M ²	F-M	F	M	F-M	F	M	F-M	F	M	F-M
1990	44	43	1	99	100	-1	30	31	-1	n.a. ³	n.a.	n.a.
1999	77	76	1	105	106	-1	77	69	8	34	30	4

1 Female; 2 Male; 3 Not available.

Sources: NSO, 2001c. Bureau of Registration Administration, Department of Local Administration, Ministry of Interior.

Table 6: Educational Attainment within the Workforce, 2001 (thousand)

Educational attainment	Labour force			% of total		
	Male	Female	Total	Male	Female	Total
Total	18,577.8	14,634.1	33,211.9	100.0	100.0	100.0
None	468.5	675.2	1,143.7	2.5	4.6	3.4
Lower primary	7,141.7	5,958.0	13,099.7	38.4	40.7	39.4
Primary	4,449.2	3,201.3	7,650.5	23.9	21.9	23.0
Secondary	4,594.3	2,852.7	7,447.0	24.7	19.5	22.4
<i>Lower secondary level</i>	2,657.9	1,582.1	4,240.0	14.3	10.8	12.8
<i>Upper secondary level</i>	1,936.4	1,270.6	3,207.0	10.4	8.7	9.7
General/Academic	1,248.3	861.5	2,109.8	100.0	100.0	100.0
Vocational	674.3	397.0	1,071.3	100.0	100.0	100.0
Teacher Training	13.8	12.1	25.9	100.0	100.0	100.0
Higher level	1,896.4	1,929.4	3,825.7	10.2	13.2	11.5
Academic	905.0	923.1	1,828.0	100.0	100.0	100.0
Higher Technical Education	655.8	552.0	1,207.8	100.0	100.0	100.0
Teacher Training	335.6	454.3	789.9	100.0	100.0	100.0
Others	4.7	4.7	9.4	0.0	0.0	0.0
Unknown	23.2	12.9	36.0	0.1	0.1	0.1

Source: NSO, 2001a.

Table 7: Labour Force Status, February 1996–2001 (thousand)

	1996	1997	1998	1999	2000	2001
Total population	59,750.4	60,350.6	60,949.0	61,551.2	62,192.1	62,741.1
Total labour force	31,702.6	31,809.9	31,978.2	32,623.0	32,856.7	33,211.9
Labour force participation rate (%)	73.1	72.2	71.4	71.7	71.0	70.9
Employed	29,919.9	30,101.8	29,271.0	29,864.9	30,299.8	30,444.7
Unemployed	634.7	684.0	1,470.2	1,700.6	1,411.1	1,582.4
– <i>Looking for work</i>	119.4	176.8	401.9	473.8	354.7	443.5
– <i>Not looking/available for work</i>	515.3	507.3	1,068.4	1,226.7	1,056.4	1,139.0
Seasonally inactive	1,148.0	1,024.0	1,237.0	1,057.4	1,145.9	1,184.8
Unemployment rate (%)	2.0	2.2	4.6	5.2	4.3	4.8

Source: NSO, *Labour Force Survey*, various years.

Table 8: Unemployment Rates, 1996–2001 (percent)

	1996	1997	1998	1999	2000	2001
Whole Kingdom	2.0	2.2	4.6	5.2	4.3	4.8
Males	1.8	1.9	4.7	5.0	4.1	4.8
Females	2.3	2.5	4.5	5.5	4.6	4.8
Rural	2.2	2.3	5.1	5.4	4.6	5.5
Urban	1.2	1.4	2.8	4.3	3.3	3.3

Source: NSO, *Labour Force Survey*, various years.

Table 9: Employment by Status, February 1996–2001 (million)

	1996	1997	1998	1999	2000	2001
Employers	0.84	0.77	0.78	0.94	0.96	0.97
Government employees	2.31	2.42	2.67	2.64	2.79	2.88
Private employees	11.61	11.58	10.63	10.16	11.00	11.56
Own-account workers	9.36	9.30	9.48	10.09	9.74	9.55
Unpaid family workers	5.80	6.03	5.71	6.04	5.81	5.45
Member of producers' cooperatives	—	—	—	—	—	0.04
Total	29.92	30.10	29.27	29.86	30.30	30.44

Source: NSO, *Labour Force Survey*, various years.

Table 10: Inequality of Per Capita Income

Year	Gini Coefficient Index	1 st Quintile	2 nd Quintile	3 rd Quintile	4 th Quintile	5 th Quintile
1988	48.5	4.6	8.1	12.5	20.7	54.2
1990	52.4	4.2	7.3	11.5	19.2	57.8
1992	53.6	3.9	7.0	11.1	19.0	59.0
1994	52.7	4.0	7.2	11.6	19.6	57.7
1996	51.5	4.2	7.5	11.8	19.9	56.7
1998	51.1	4.2	7.6	11.9	19.8	56.5
1999	53.3	3.8	7.1	11.3	19.3	58.5

Source: NSO, *Socio-economic Survey*, processed by DED, the NESDB.

**Table 11: Expenditures on Community and Social Services, FY 1998 – FY 2001
(million bath)**

	1998	1999	2000	2001
Education affairs and services (% change)	206,944.5 (0.4)	207,316.5 (0.2)	220,620.8 (6.4)	221,603.3 (0.4)
Health affairs and services (% change)	64,071.2 (-0.4)	60,106.4 (-6.2)	63,501.2 (5.6)	64,791.0 (2.0)
Social security and welfare affairs and services (% change)	34,047.6 (-0.5)	36,544.7 (7.3)	46,101.1 (26.1)	51,553.1 (11.8)
Housing and community amenity affairs and services (% change)	39,538.3 (-1.3)	35,681.9 (-9.8)	37,165.5 (4.2)	37,056.9 (-0.3)
Religious, cultural, and recreation affairs and services (% change)	12,420.5 (-0.1)	8,255.2 (-33.5)	7,452.1 (-9.7)	6,753.7 (-9.4)
Total community and social services (% change)	357,022.1 (-1.9)	347,904.7 (-2.6)	374,840.7 (7.7)	381,758.0 (1.8)
Percentage of the total budget	43.0	42.2	43.6	42.0

Source: Bureau of the Budget, Thailand's Budget in Brief, Fiscal Year 1998 – 2001.

Table 13: Budget Appropriations by Objects of Expenditures for Ministry of Labour and Social Welfare (million bath)

Year	Salaries and wages	Temporary wages	Remuneration services other than personal, and supplies	Public utilities	Equipment properties and construction	Subsidies	Others	Total
1997	2,184.1 (17.3)	184.4 (1.5)	1,974.0 (15.6)	155.6 (1.2)	2,897.0 (22.9)	5,224.9 (41.3)	28.1 (0.2)	12,648.1 (100.0)
1998	2,309.6 (23.1)	220.4 (2.2)	2,314.7 (23.1)	144.3 (1.4)	2,462.8 (24.6)	2,453.6 (24.5)	95.0 (0.9)	10,000.4 (100.0)
1999	2,446.3 (22.0)	216.0 (1.9)	2,063.1 (18.5)	146.9 (1.3)	1,110.5 (10.0)	4,990.8 (44.9)	153.6 (1.4)	11,127.2 (100.0)
2000	2,508.7 (14.7)	227.6 (1.3)	2,014.7 (11.8)	156.1 (0.9)	1,325.5 (7.7)	10,471.8 (61.2)	402.2 (2.4)	17,106.6 (100.0)
2001	2,574.7 (15.2)	234.0 (1.4)	2,131.6 (12.6)	158.6 (0.9)	1,107.3 (6.5)	10,431.0 (61.6)	299.9 (1.8)	16,937.1 (100.0)

Source: Bureau of the Budget, Fiscal Year 1997–2001.

Table 14: Budget Appropriations by Objects of Expenditures for Ministry of Public Health (million bath)

Year	Salaries and wages	Temporary wages	Remuneration services other than personal, and supplies	Public utilities	Equipment properties and construction	Subsidies	Others	Total
1997	22,591.3 (33.0)	48.0 (0.1)	10,495.8 (15.3)	1,088.4 (1.6)	26,751.2 (39.1)	7,325.2 (10.7)	138.4 (0.2)	68,438.3 (100.0)
1998	24,458.0 (39.1)	45.3 (0.1)	8,552.8 (13.7)	843.5 (1.3)	17,333.1 (27.7)	10,709.5 (17.1)	682.9 (1.1)	62,625.1 (100.0)
1999	26,361.6 (46.1)	45.9 (0.1)	9,491.5 (16.6)	811.2 (1.4)	9,002.4 (15.7)	10,708.9 (18.7)	749.8 (1.3)	57,171.3 (100.0)
2000	28,310.0 (48.5)	45.8 (0.1)	9,755.4 (16.7)	851.8 (1.5)	6,981.0 (11.9)	11,391.0 (19.5)	1,091.0 (1.9)	58,426.0 (100.0)
2001	28,757.0 (49.0)	50.6 (0.1)	9,728.1 (16.6)	848.0 (1.4)	5,379.0 (9.2)	11,771.5 (20.1)	2,163.0 (3.7)	58,697.2 (100.0)

Source: Bureau of the Budget, Fiscal Year 1997–2001.

Table 15: Budget Appropriations by Objects of Expenditures for Ministry of Education (million bath)

Year	Salaries and wages	Temporary wages	Remuneration services other than personal, and supplies	Public utilities	Equipment properties and construction	Subsidies	Others	Total
1997	91,840.0 (56.4)	565.7 (0.3)	14,656.6 (9.0)	1,157.4 (0.7)	40,324.2 (24.7)	13,959.0 (8.6)	450.1 (0.3)	162,953.0 (100.0)
1998	95,742.8 (62.4)	1,072.6 (0.7)	10,244.2 (6.7)	1,255.0 (0.8)	20,855.0 (13.6)	23,232.7 (15.2)	939.3 (0.6)	153,341.6 (100.0)
1999	101,106.4 (66.9)	1,516.6 (1.0)	13,679.6 (9.1)	1,112.0 (0.7)	15,042.7 (10.0)	17,618.3 (11.7)	949.4 (0.6)	151,025.0 (100.0)
2000	105,637.0 (66.4)	1,882.4 (1.2)	14,383.7 (9.0)	1,168.4 (0.7)	13,667.9 (8.6)	21,422.1 (13.5)	980.0 (0.6)	159,141.5 (100.0)
2001	106,536.6 (66.2)	2,158.2 (1.3)	12,854.4 (8.0)	1,193.6 (0.7)	12,156.1 (7.6)	25,025.2 (15.6)	929.7 (0.6)	160,853.8 (100.0)

Source: Bureau of the Budget, Fiscal Year 1997–2001.

Table 16: Macro Economic Indicators, 1998–2002

	1998	1999	2000	2001	2002q1
GDP (billion baht)	4,626	4,632	4,905	5,099
GDP per capita (baht)	72,979	72,901	77,362	80,083
Growth rate (%)	-10.2	4.4	4.6	1.8
Inflation (%)	8.1	0.3	1.6	1.6	0.6

Source: Bank of Thailand, 2001.

Table 17: Services from Governmental and Non-governmental Organizations for Homeworkers

Types of organizations	Names of organizations	Types of services
Governmental Organizations	The Accelerated Rural Development Office	Training, credit, raw materials/equipment
	Provincial Health Care Office	Low-income health card
	Community Development Department	Training
	Non-formal Education	Credit
	Industrial Promotion Centre	Market linkage
	Provincial Labour Protection and Welfare	Training
	Bank of Agriculture and Agriculture Cooperative Ltd. (BAAC)	Credit
	Bangkok Metropolitan Authority (BMA)	Health Insurance Card
	National Housing Authority (NHA)	Training, raw materials/equipment
	Department of Public Welfare	Loan fund
	Skill Development Department	Training
Urban Community Development (UCDO)/Community Organizations Development Institute (CODI)	Credit, training	
Non-Governmental Organizations	Credit Union Cooperative	Credit
	Forward Foundation	Training, seeking for orders
	World Vision Foundation	Training, obtain order, provide raw materials
	HomeNet Thailand	Training, group organizing, research and study
	Friedrich Ebert Stiftung	Donation of equipment

Source: From HomeNet Thailand, *ibid*, chapter three.

Acronyms

BAAC	–	Bank of Agriculture and Agricultural Cooperatives
CBO	–	Community-Based Organization
CODI	–	Community Organization Development Institute
CPI	–	Consumer Price Index
CSO	–	Civil Society Organization
DED	–	Development Evaluation Division
GDP	–	Gross Domestic Product
GNP	–	Gross National Product
ILO	–	International Labour Organization
LFS	–	Labour Force Survey
NESDB	–	National Economic and Social Development Board
NGO	–	Non-governmental Organization
NLDAC	–	National Labour Department Advisory Council
NSO	–	National Statistical Office
SIF	–	Social Investment Fund
TFR	–	Total Fertility Rate
WISE	–	Work Improvement in Small Enterprises
WTO	–	World Trade Organization

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Social Protection in Vietnam

Nguyen Huu Dzung and Dao Quang Vinh

Abstract

Vietnam started its renovation process in 1986. During the last 15 years of implementing its renovation policy, the country's socio-economic situation has experienced comprehensive and significant changes.

Economic growth remains consistently high. Average annual GDP growth in 1986–90 was 3.9% per year, 8.2% between 1991 and 1995 and 7% between 1996–2000. At the end of 2000, GDP per capita rose to US\$400, twice the level of 1990. Although difficult conditions were seen, Vietnam attempted to reach a growth rate of 6.8% in 2001.

However, the poverty rate was still as high as 32% in 2000 (by the UN poverty line). Unemployment and underemployment remain some of the biggest challenges for Vietnam in the 21st century.

A fundamental criterion for the state to invest in social development is a reasonable increase in GDP. The state expenditure for all social fields for the period 1995–2000 saw an increasing trend. 14% of state expenditure was disbursed for social protection, 15% for education, and 6% for health care.

Furthermore, a relatively well-developed contributory social insurance system now exists, and projects are underway to 'round out' this system with unemployment benefits and longer-term invalidity benefits.

However, the majority of the population is not covered by social insurance or health insurance and gains little benefit from social transfers financed by the state budget. Those in the majority are located in the rural and informal sectors of the economy and are mostly poor. The only formal social protection for them consists of possible access to very limited and tightly targeted social assistance from the Contingency Fund for Pre-Harvest Starvation and Disaster Relief, plus assistance with health and education costs from the Hunger Eradication and Poverty Reduction (HEPR) and other development programs. A very small minority of the population receives regular monthly benefits from the Social Guarantee Fund for Regular Relief (SGFRR).

This pattern reflects in part Vietnam's situation as a transition economy, which is also a developing economy. It has a minority formal sector with well-developed social protection, and a majority rural and informal sector with little formal social protection. The present condition to an extent portrays the impact of history, including the large number of Vietnamese individuals and families severely affected by war and revolution.

There have been a number of measures undertaken by the Vietnam government to increase funding for social protection. The reforms target improvements to the adequacy and effectiveness of public social assistance schemes in providing a social safety net for the majority who lack formal social insurance coverage.

* The rate of exchange of the dong against the US dollar at the end of 2000 was US\$1 = 14.500 VND.

1. Institutional Framework

1.1 General Political, Social and Economic Framework

General Information

The Socialist Republic of Vietnam is located in Southeast Asia and covers an area of more than 331 thousand sq km. In 2001, it had a population of 78.7 million people, of which 50.8% were female. The average growth rate of the population over the period 1989–99 was 1.7%. By the year 2000, the net fertility rate was 19.9% while the net mortality rate was 5.6%, so the natural rate of population growth soared to 14.3%.

During the last few decades, the life expectancy of the Vietnamese has been increasing. From 50.3 years in 1975, it climbed to 67.2 years in 1995 and 67.8 years by 2001. The rapidly decreasing fertility rate in accordance with the increasing life expectancy has resulted in an ageing Vietnamese population. The proportion of elderly people (aged 65 and over) increased from 4.7% to 5.8% for the period 1989–99. Urban dwellers constituted 23.5% and 24.55% in 1999 and 2001, respectively.

The migration rate for the period 1994–99 (i.e. five years ago during the General Census on 1 April 1999) was 74‰, higher than the level of the previous period (1989–93), especially with the massive rush into big cities and industrial zones such as Hanoi, Ho Chi Minh City, and Danang (between 1994–99, about 1.2 million rural people migrated into urban areas to earn a living).

The literacy rate of the population aged 10 and over increased from 88% to 91% for the period 1989–99 and to 93.9% in 2001, with a remarkably high rate of literacy for laborers, up to as high as 97%. However, as far as gender is concerned, the female-male differentials remain high: in 1999, the literacy rate of female laborers was 88%, 6% lower than that of male laborers (94%); the difference in the literacy rate of workers between the rural and urban areas was less visible (93% in urban areas and 90% in rural areas). Current figures suggest 92% of the population aged 10 and over have been exposed to some form of language study (96% in urban areas and 91% in rural areas). The general rate of school enrollment for all levels was 49% in 1995 and rose to 67% in 2001. By the year 2000, the national goal of anti-illiteracy and universalized primary education was completed nationwide. The average number of schooling years per person was 7.3 years; since 2001, Vietnam has been shifting to compulsory education in lower secondary level (nine years) and this is expected to be realized by the year 2010.

Macro-economic Framework

Vietnam's economy averaged 7% growth per year between 1996 and 2000. Although conditions are currently difficult due to low quality and low efficiency development, limited and unstable macro-economic balances, lack of perfect legislative systems, and so on, Vietnam attempted to reach a fair growth rate of 6.8% in 2001. The structure of the economy (by GDP) is being transformed positively into more value-added industries: in 2001 the industry and construction share was 38%, the share of services was 39% and agriculture-forestry-fishery was 23% (against 23.79%; 35.72% and 40.49% in 1991). Inflation was curbed effectively at the beginning of the 1990s and has remained stable and commensurate with economic development. The inflation rate was 3% per year over the period 1997–2000.

In the period 1996–2000, total export revenue increased by 21.5% per annum, total import revenue increased by 13.3% per annum; the economy attracted and invested approximately US\$10 billion of FDI (Foreign Direct Investment) and US\$6.2 billion of ODA (Official Development Assistance). GDP per capita doubled to US\$400 compared to 1990.

A reasonable increase in GDP is considered fundamental in order for the state to invest in social development. The domestic collecting rate for the state budget over GDP in the period of 1995–2000 was more than 21% per annum. The expenditure of state budget for all social fields over 1995–2000 saw an increasing trend in comparison with 1991–94. In 2000, 14% of total state spending was disbursed for social protection, 15% for education, and 6% for health.

Vietnam is developing a multi-sectoral economy. At present, state-owned enterprises (SOEs) are playing a major role in the national economy. Since the introduction of the new Law on Enterprises (1 January 2000), the number of newly established private enterprises has been growing at a very high rate (18.3% in 2000, 19.5% in 2001) in comparison to the year before.

At the moment, approximately 200,000 SMEs (Small and Medium Enterprises) and 60,000 farming households are contributing significantly to the generation of employment; the foreign investment sector (joint ventures and enterprises with 100% capital of foreign origin) continues with strong growth – with the petroleum, gas and other sectors increasing by 13.8%, 11% and 15% respectively (in 2001). The informal sector plays a major part in job creation and poverty alleviation.

Labor Market Structure

In 2000, the total labor force amounted to 38.6 million people. The composition of employed workers has been moving positively: 62.6% are working in agriculture, forestry and fishery; this number decreased by 1.1% in comparison to 1999. At the same time the labor proportion increased by 0.6% in construction and industry over 1999–2000 (from 12.5% to 13.1%) and by 0.4% in service (from 23.9% to 24.3%). Since the absolute number of workers in agriculture-forestry-fishery is still large and only slowly decreasing, the main pressure concerning future employment trends remains in rural areas.

In 2000, 91% of the labor force was working in the non-state sector. Specifically, the private and non-farming household economy attracted about 32% of the labor force (i.e. around 12 million workers), while the farming economy¹ attracted about 700,000 workers (about 12 workers/farm). One year after the implementation of the Law on Enterprises, 300,000 workers were employed in these new enterprises. By June 2000, the foreign investment sector had created around 330,000 jobs; in other words it absorbed about 1% of the labor force if indirect labor is included.

The unemployment rate in urban areas saw a downward tendency from 6.7% in 1999 to 6.5% in 2000 and 6.28% in 2001. The rate of the annual actual working time as a percentage of total annual potential working time in rural areas improved (74% in 2000). However, the generation of employment is still one of Vietnam's biggest challenges in the 21st century.

Income and Budget Distribution

The savings rate increased from 27.14% in 1995 to 29.46% in 2000. The rate of final consumption decreased correspondingly, yet in absolute terms was on the rise, at 1.75 times that of the final consumption in 2000 compared to 1995 (in current prices). However, it is noteworthy that the gap in uneven income distribution among the poorest quintile and the richest quintile, among regions, urban and rural areas seemed to be growing.

According to the Vietnam Living Standard Survey, the Gini coefficient based on average expenditure per capita in 1993 was 0.33 and increased to 0.35 in 1998. During the period 1993–98, the real expenditure per capita of the poorest quintile increased only by 29%, while it rose to 54% in the richest quintile. This certainly shows the increasing income distribution gap in Vietnam, although it is still not too wide. Nevertheless, it is necessary to take notice of the fact that the rural/urban income difference is considerable. Ninety-six percent of the poor are living in rural areas, nearly one-third (32%) of which are concentrated in the mountainous and upland areas in the North. About two-thirds (63%) of the more well-off live in urban areas; one-third resides in Hanoi and Ho Chi Minh City. Taking the average income per capita into consideration, urban dwellers have twice as many possessions as their rural counterparts.

Political System

Pursuant to the Constitution in 1992 and some amendments of and additions to this Constitution in 2001, it confirms that:

- The Socialist Republic of Vietnam is a legislation-based state by the people, of the people and for the people. All state power was founded on the alliance of workers, farmers and the intellectual class and belongs to the people.

¹ This includes agricultural enterprises which have at least 2 hectares of land and produce at least an amount of goods equal to VND 40 million per year.

- The Vietnam Communist Party is a pioneer force of the Vietnam worker class and a loyal representative of their interests. The whole nation is based on the Marxism-Leninism and Ho Chi Minh ideology and also the leadership of state and society.
- The state power is executed via the National Assembly; People's Committees, which are elected and bear responsibility for the people, exist at all levels and represent their will and aspirations.
- The government is an executive body. It is the highest administrative state body of the Socialist Republic of Vietnam. Vietnam is a unified state of all races presiding in the Vietnamese territory; the state administers the society via legislation and keeps enhancing its socialist legal system.
- Vietnam has a socialist market-oriented economy.

As such, the political system in Vietnam is very stable. No significant changes occurred in the last two decades. The government is set up and led by a powerful and sole party with no opposition party and/or wing. Confidence in the party's absolute leadership is the decisive factor to the success of the process of *doimoi* (renovation), development and integration into the international economy.

1.2 Availability and Quality of Data

The most important issue in conducting a study on social protection is gaining access to a source that provides quality data. At the national level, these data can be extracted from basic channels such as state statistical reports; census, living standard surveys (multi-targets), annual surveys on employment and labor and poverty alleviation, administrative reports by specific state-management agencies at all levels and other studies.

With the financial and technical assistance of the United Nations (UN), Vietnam has built up an information network and updated data. However, due to the ongoing transition, data sources are still deficient, particularly information related to social insurance, the labor force, employment and unemployment. On the one hand, since these data are formed based on local definitions and standards, it is hard to be internationally comparable; on the other hand, as a poor country Vietnam is facing the problem of rudimentary and insufficient facilities for collecting, processing and analyzing information and data.

In addition, the limited capacity of skilled staff in computer technology and foreign languages obstructs current and future studies on social protection in Vietnam. It is therefore necessary to set up a managerial information network on social protection, not only to reflect the specific characteristics of Vietnam, but also to be internationally comparable. First, it needs to make the best use of international assistance and support (such as from the United Nations Development Programme, the World Bank, the Asian Development Bank etc.) in technical terms for surveys and gathering information.

1.3 Existing Institutional Framework

The institutional framework of Vietnam is based on a strong public movement. The active participation of social actors such as socio-political organizations, occupational

organizations and NGOs in realizing social policies is the norm. These activities produce a framework of publicly controlled power, and at the same time serve as a platform to broaden the regulation of democracy and promote other public initiatives.

The trade union (TU) is a socio-political organization representing Vietnamese workers. It protects the lawful and legitimate rights and benefits of workers, and shares responsibility with the state to develop production, job settlement, vocational training, and the improvement of the material and spiritual life of workers. Furthermore, it formulates laws, social policy, labor and wage policies, social insurance, and labor protection. It also controls and monitors the implementation of labor legislation and takes the responsibility of organizing, educating and encouraging workers to promote the role and obligation of citizens. It is designated as member of the Executive Council of the Social Insurance Fund at all levels. One representative each from the Ministry of Finance, Ministry of Labor, Invalids and Social Affairs, Ministry of Planning and Investment, the TU and VSI (Vietnam Social Insurance) stands on this council, which decides the strategy of the development of SI, approves the 5-year and yearly plans, and supervises activities of VSI at all levels. At the enterprise level, the TU is represented to enable workers to sign collective labor agreements.

NGOs and civil society organizations, especially Fatherland's Front, Women's Union, Youth's Union, and Farmer's Union are political foundations of the state. They are close to workers and act as a bridge and transmitting channel to deliver policies to workers, making sure the targets and objectives are met and sound results are achieved. They are successful in aggregating forces and displaying unity and innovation in the implementation of social protection policies.

Today, employers have a greater influential role in social protection schemes. In Vietnam, there are organizations such as the Vietnam Cooperative Alliance, Vietnam Chamber of Commerce and Industry, Association of Industrial Trade, and Club of Directors, among others. They act as representatives of the employers. These organizations coordinate and assist each other to develop enterprises and contribute to policies related to enterprise development. At the same time they participate actively in social protection, especially social insurance and the realization of social policies.

The government and social actors are related closely on the basis of a common-purpose partnership, a harmonious benefit-based solution on a tripartite scheme: State, employer, worker and dispute-settlement all conform to Vietnamese law (i.e. the Labor Code). Tripartism among state, trade union (workers), and employers has been gradually forming, although this mechanism is still in the process of becoming a complete and institutionalized legislation.

1.4 Government Support

Social protection is one of the crucial social policies of the nation and is the focus of much government attention. The basic viewpoint of the Vietnamese government is to coherently link economic growth with social advancement and equality during the lifespan of each development plan. The Vietnamese government pledged to realize

the Copenhagen Declaration and Action Plan on Social Development in 1995, the Hanoi Declaration on 20 / 20 Initiatives and other relevant international commitments. In particular, priority is given to the renovation of social protection policies appropriate for the transition to a market economy, specifically:

- The government has issued many policies on economic development and put forth solutions aimed at macroeconomic stabilization with a vision of setting up an economic foundation and favorable conditions to achieve social protection targets;
- The legal system is being formulated and completed (Labor Code, Law on Protection and Care for Children, ordinances on disabled and elderly people); reforms of the social insurance system are introduced to ensure the implementation of social protection policies with equality and clearer guiding principles;
- National target programs have been established such as the Employment Program, poverty alleviation, and the program on supporting extremely poor communities;
- Public expenditure is adjusted by increasing social protection from the state budget. At the same time, the policy for mobilizing all resources for social protection is implemented.

During the implementation process of social protection policies, the government utilizes a decentralized mechanism. As a result, policies are targeted to the intended beneficiaries and implemented successfully.

1.5 Traditional and Contemporary Perception of the Social Protection System

In the past, under the central planning and subsidized system, the social protection scheme in Vietnam was under the authority of the state, and the beneficiaries of the scheme were categorized as part of the state sector or cooperatives (amounting to 10% of the population). The rest of the population was not included in this scheme. Thus, the family and community, particularly in villages, hamlets and communes, played very important roles for those in need of social protection.

Cultural and traditional values and practices such as ‘elderly parents relying on their children in case of sickness’ or ‘assistance among people in the community’ prevail till today and constitute an informal social protection system in Vietnam. Alongside the prevailing cultural values, it is hoped that the widening of the formal social protection scheme will create a positive environment for a comprehensive social protection scheme. This combines modern factors with traditional cultural values to develop a social protection scheme that is sustainable and effective as well as compliant with the principles of solidarity, risk sharing and equality that are considered important values in a modern society.

In the market economy, the development of a social protection scheme with the contribution of all partners (workers, employers and assistance from the state) has been widely accepted in place of the previous subsidized social protection scheme. However, in the poor conditions of Vietnam where labor productivity and workers’ in-

comes are low, the state cannot run a security scheme that requires a large contribution from workers. In the long-term future, Vietnam still needs a security scheme with low contributions but comprehensive benefits.

A developed society is one where everybody has a safe social life; everyone is involved in a social security scheme, particularly in the case of sickness, maternity, work-related injuries, unemployment, old age and death. The Vietnamese government is pursuing a policy that ensures social security for everybody. However, whereas workers expect to benefit only from pension and death schemes, it needs to develop a comprehensive system. With the aim of responding to the interest of the people, a formal social protection system (both compulsory and voluntary) has been developed and enlarged. In addition, an informal social protection system relying on family and community plays a very important role in the Vietnamese society.

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

The formal sector in Vietnam comprises the enterprise sector and the public sector.

a) Enterprise sector: It consists of registered enterprises with ten or more workers operating under certain laws:

– *Enterprises operating under the Law on State Enterprises:* State-owned enterprises (SOEs) play a key role in the economy, making up 39% of GDP. SOEs make up two-thirds of GDP in industry and construction, and one-half of GDP in services. In 2001, Vietnam had more than 5,000 SOEs with 1.8 million employees. At present, SOEs are in the process of restructuring (i.e. equitized, sold off, paid in-part or outsourced). It is foreseen that by 2005, the total number of SOEs will be reduced to around 2,000 and as a consequence the number of employees will decrease by 350,000. Many of them will become workers in joint-stock, private enterprises or in other sectors of the economy.

– *Enterprises operating under the Law on Enterprises (private):* They are domestic non-state enterprises (NSEs) with ten or more workers. The non-state economy has been surging forward since Vietnam started its economic reform in 1986; on January 1, 2000, when the new Law on Enterprises took effect, the number of private enterprises boomed rapidly. For instance, in the year 2000, more than 14,000 private enterprises were established and registered with a capital of around 24,000 billion dong (US\$1.6 billion), three times more in terms of the number of enterprises and five times more in terms of capital in comparison to figures in 1999. During the first eight months of 2001, there were about 12,000 private enterprises established and registered with a capital of around 14,400 billion dong, 1.4 times more in terms of the number of enterprises and 1.7 times more in terms of capital in comparison to figures in 2000. By June 2001, the total number of workers in private enterprises was 1.4 million.

– *Enterprises operating under the Law on Foreign Investment in Vietnam*: By the end of 2000, there were 3,170 foreign investment projects with a registered capital of approximately US\$39 billion and operating capital of US\$20 billion in Vietnam. The foreign investment sector had contributed 35.6% in industrial production revenue, about 23% in export turnover (excluding oil and gas), and 13% of GDP in 2000. This sector had a positive effect on the overall balances of the economy, and absorbed a modest number of employees. In 2001, about 354,000 employees were working for this sector, making up nearly 1% of employed people.

– *Enterprises operating under the Cooperative Law*: In reality, the collective economy has been re-organizing. At the moment, cooperatives are being re-formed pursuant to the new Cooperative Law. In 2000, 8.5% of GDP was attributed to the cooperative economy and attracted about 350,000 employees.

b) Public sector: This sector contains state administration, party and mass organizations and public services (education, health care, scientific research, culture and so on). Its employees make up 3.8% of the total number of employees. Predictably, in 2001 the total number of employees in the formal sector accounted for around 15% of the workforce – a fair increase in comparison to 9.5% in 1994.²

The formal sector is the main source of income for the state budget; it is the backbone of the economy and a decisive factor to national development. Therefore, although it absorbs a very modest number of employees, it is given much consideration in terms of legal framework formation, financial and credit provision, training and supplying human resources, R&D and so on.

Problems and Features of the Formal Sector

- Being a pioneer and high-yield producer. The capital per worker is much higher than that in the informal sector. It is estimated to be 42–50 million dong in the state industry, 27–30 million dong in the service sector and around 400 million dong in the foreign investment sector. On the other hand, in small-scale industries, capital per worker amounts to about 10 million dong and the lowest level is recorded for the self-employed and in the agriculture sector.
- Attracting mostly trained workers, especially in the state sector (i.e. SOEs and public services). Central agencies and enterprises employ more than 93% of highly skilled workers.
- Being highly protected by the state through subsidies for SOEs, protection for import-substituting industries, and priority in credit provision.
- Providing workers with a stabilized and guaranteed income (minimum level), protected working conditions and occupational safety and health based on labor legislation and other laws.
- Applying labor contracts with workers (regular staff in the state sector), participating in compulsory social and health insurance schemes (under various laws); providing training and retrenchment benefits; forming trade unions.

² Vu Quang Viet, “Economic development situation in Vietnam 1989–1995”, *Economic Study*, No. 220, September 1996.

Despite playing an important role in the economy as a whole, the formal sector remains with the following problems:

- *Quality and efficiency of enterprises*: Although SOEs are considered as the backbone of the economy, they are often characterized by small scale, insufficient capital, outdated technology, poor capacity to search for new markets, and heavy reliance on state support. Over 50% of SOEs are unprofitable. The newly-established private enterprises lack capital, especially manpower, business experience, and mid-term and long-term strategies, and are characterized by low quality products, little attention to R&D, marketing and human resource training.
- *Competitiveness*: The concentration of investment in strongly protected and import-substituting industries (including foreign investment enterprises) diminished the competitiveness of Vietnamese commodities. According to the World Economic Forum, in terms of competitiveness, Vietnam ranked 49th, 39th and 49th out of 53 countries in 1997, 1998 and 1999, respectively.
- *Labor market*: There are an insufficient number of labor market institutions. Many of them have just been set up recently; they are still limited in capacity and experience, and lack a consistent and effective policy system. They have also witnessed strong administrative interference, a scattered labor market and low labor mobility.
- *Labor contracts and collective agreements*: A great number of workers in SOEs and foreign investment enterprises sign labor contracts. However, the percentage of workers possessing signed labor contracts, which are mostly for one-year or less-than-one-year periods, is 40% of the total number of workers in private enterprises. In the year 2000, only 42% of enterprises with ten or more workers had signed a collective agreement. In the private sector for the same year, it was as low as 20%.
- *Social insurance*: The rate of enterprises actually contributing to social insurance as a percentage of the total number of enterprises compelled to do so remains at a low level (63.2%). There has been a lower rate of workers for whom it is compulsory to contribute. In addition, some enterprises leave out a great number of workers from the compulsory contributions list for social insurance to avoid their responsibility of contributing social insurance (SI) for these workers. In the private sector, only 18.4% of workers contributed to social insurance in 2000.
- *Occupational safety and health*: the implementation of labor legislation on workplace protection has many shortcomings. The application of working standards relies heavily on the specific conditions of each enterprise, particularly in mining enterprises where labor protection, safety standards and technical norms are regularly violated.
- *Trade Unions*: A survey in 2000 found that only 58.76% of enterprises with ten or more workers had established a trade union, whereas 70% of private enterprises were not yet unionized.

2.1.2 Social Insurance and Savings Schemes

One of the key concepts of SI is the pooling of contributions of workers and their employers in order to protect the insured persons and their dependants against the effects of social security contingencies.

Vietnam established a new self-financing social insurance system in 1995 by decree 12/CP of 1995. This is administered by the Vietnam Social Insurance (VSI) in order to adjust to the new policies for the introduction of a market-oriented economy.

The scheme applies to employees with labour contracts of three months or more in SOEs, state institutions (including the civil service), Vietnamese staff in joint ventures, the armed forces, and employees in non-state enterprises with ten or more workers. The number of contributors, excluding the armed forces, was over 5 million, about 16% of the labour force.

The Social Insurance Fund is derived from the following resources: a) employers pay 15% of basic salaries to VSI. Out of this amount, 10% is for pension insurance and survivorship and the remaining 5% is for sickness, maternity and employment injury benefits; b) employees pay 5% of their basic salaries, which is allocated to pensions and life insurance; c) contribution and subsidies from the state budget; and d) other resources, such as profits from investment activities of the insurance fund.

The contingencies included in the SI scheme cover sickness, maternity, employment injury, retirement and survivorship.

1) Sickness benefit. In the case of sickness, 75% of insurable earnings (the earnings on which contributions were paid) is payable, without any contribution condition (duration of contribution, extra fees), for a maximum number of days per year ranging from 30 to 50 according to the duration of insurance, or 40 to 60 days for workers in heavy or hazardous occupations. Extended benefits entitlement is prescribed for serious diseases normally up to 180 days per year. Sick leave can also be granted to a parent when required for caring for sick children under age 7.

2) Maternity benefit. The maternity allowance of 100% of insurable earnings and the maternity grant of one month's insurable earnings are usually payable without any contribution condition for four months, or five to six months for workers in heavy or hazardous jobs or living in difficult economic areas. Maternity benefits are restricted to two children.

3) Benefits for employment injury. This benefit, which includes occupational diseases, is due on the occurrence of personal injuries sustained in the course of employment or whilst travelling to and from work. There are no contribution conditions for this contingency. Employers are liable to provide medical treatment and continue payment of salaries to injured workers. Where permanent disablement occurs, VSI is liable for disability benefits, which consist of lump sum payments where the degrees of disability are 30% or less, and pensions for higher ratings. On death from employment injuries, survivors are entitled to 24 months minimum wages and to pension benefits. Benefits are for up to four dependants (children under the ages 15 or 18 if

students and, subject to having reached retirement age, parents, parents-in-law, foster parents and spouse) and each is entitled to pensions of 40% of the minimum wage, or 75% if entirely dependent on the pension. A funeral allowance of eight months minimum wage is also payable.

4) Retirement pension. It is payable if the claimants have attained retirement age, retired and paid pension contributions for at least 20 years. Under the decree, as amended, 'retirement age' means either:

- a) For an insured person who has worked either for 15 years in jobs classified as heavy or hazardous, or 15 years in jobs which are complemented with a regional allowance coefficient of 0.7 or over, or for ten years in South Vietnam or Laos before April 30, 1975 or in Cambodia before August 31, 1989, age 50 (women) and age 55 (men); or
- b) For an insured person who has paid social insurance contributions for at least 30 years, age 50 (women) and age 55 (men) respectively; or
- c) For all other insured persons, age 55 (women) and age 60 (men).

The pension rate is 45% of average earnings for 15 years insurance rising at the rate of 2% for additional years to a maximum of 75%. Contributors for more than 30 years receive a lump sum of 50% of average salary per year in excess of 30 years up to a maximum of five months average salary. The minimum pension is equal to the minimum wage. However, reduced pensions are payable when: a) men and women aged 60 and 55, respectively, have paid contributions for at least 15 years; b) men aged 50 and women aged 45 have a degree of disability of 61% or more; and c) persons who have worked for a minimum of 15 years in heavy and hazardous jobs and paid pension contributions for a minimum of 20 years and are disabled to the extent of 61% loss of earnings capacity or more.

5) Survivorship pension benefits and funeral allowances are prescribed for survivors on the same basis as for survivors in the employment injury branch as explained earlier.

At present, the government is designing a detailed plan aimed at expanding the objectives of social insurance that will include farmers and laborers in rural areas as well as self-employed laborers, while facilitating the participation of all people in the social insurance system. This also aims at correcting some shortcomings of the present insurance system, and securing a more comprehensive insurance policy. In 2000, relevant government agencies (Ministry of Labor, Invalids and Social Affairs, Ministry of Justice, TU, and VSI) were assigned the task of developing the Law on Social Insurance. The ILO also gives advice on SI.

Health Insurance

Vietnam Health Insurance (VHI) was officially set up in 1993 by a decree issued in 1992 on designing two health insurance schemes: (a) A compulsory scheme for state officials and employees, pensioners and employees in the non-state sector (with ten employees or more), and (b) A voluntary health insurance scheme for rural popula-

tions, self-employed persons, family members and school children. The objectives were to facilitate access to health care to the population as a whole and to progressively raise the standards of health care services.

The compulsorily insured are entitled to a full range of medical care including consultations, medicines, and outpatient and inpatient treatment. Exclusions are related to diseases treated by public health care (for example, HIV/AIDS, mental diseases), except employment injury cases, which are the responsibility of employers. Drugs are particularly important due to their generally high costs.

Overall, the same range of care is provided to voluntarily insured persons, but variations occur from province to province according to the charges levied for voluntary health insurance cards and the facilities available. The decree specifies that if voluntary health contributions are equivalent to the average compulsory contribution, cardholders have identical benefit rights. There are two types of health insurance (HI) cards: low fee (for inpatient services) and high fee (for all kinds of services and in some cases drugs). Almost all insured persons in the voluntary scheme chose low fee cards.

The compulsory scheme charges 3% of basic salaries; from this 2% is due from employers and 1% is contributed by employees. The voluntary health cards cost about 22,000 dong per year for school children, between 30,000 and 38,000 dong per year for farmers and between 50,000 to 60,000 dong per year for the general population, according to location and the decisions of the People's Committees.

HI played an important role in mobilizing additional resources for the health sector in 1998. HI contributes up to 15% of the total revenue of hospitals. However, because expenditure exceeds revenue, HI faces the challenges of sustainable financing.

2.1.3 Social Assistance and Services: Benefits and Transfers

In the event that an employee becomes redundant due to restructuring of the company, such employees will then receive benefits according to the policies stipulated in article 17 of the Labor Code and the government decree 72/CP of October 31, 1995. Article 17 states that 'where, as result of structural or technological changes, workers who have been regularly employed in the enterprise for one year or more become redundant, the employers have the responsibility to retrain them for continued employment in new jobs; if no new jobs are available and employment has to be terminated, the employers must pay a retrenchment benefit at the rate of one month's salary for each year of employment, but no less than two months' wage.' Redundant workers can thus get either training or some retrenchment benefits.

Social Guarantee Fund for veterans and war invalids. This fund draws allocations from the state budget to pay pensions and other benefits to war-affected persons or their surviving kin.

The policy on preferential treatment to those who are credited with services to the country's liberation is one of the first priorities of the party and the Vietnamese

government. Therefore, the government has issued two important ordinances: the ordinance on Special Treatment to the War-Affected People and the ordinance on rewarding the name Hero Mother. These ordinances are aimed at ensuring happy lives for this special group of people in both material and spiritual terms, and improving their living standards to an equal or higher level in comparison with that of their neighbors.

This fund draws allocations from the state budget to pay pensions and other benefits to approximately 1.4 million war-afflicted persons or their surviving kin. They also have exemptions from health insurance contributions and cost-sharing provisions of 20%, which came into force in January 1999.

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal sector

The development of a multisectoral economy has provided a framework and an impetus to a non-state economy. As a result, the economy is more dynamic, especially with the revival of many traditional craft industries and new types of activities. Therefore, the informal sector has developed in both urban and rural areas.

In urban areas, the informal sector has been diversified. Along with traditional craft activities, there are many newly formed activities such as commercial agencies, consultation and tutoring services, home-based medical treatment and so forth. These businesses and service units are characteristically small-scale (less than ten workers), inconsistent, changeable and unregistered. This sector also includes formal sector workers who want some extra income.

In rural areas, the 'by-piece' scheme based on households (for all kinds of products) builds a favorable foundation for the development of the informal sector. Besides farming activities, workers can get involved in other secondary occupations like small-scale farming, product processing, trade, mechanics, transportation, construction, hired work and so on. In traditional crafts villages, small-scale production, processing and service units are home-based with some hired workers.

The shortage of farmland and underdeveloped off-farm activities has led to severe underemployment in rural areas. According to the survey on employment and labor in July 2001, the underemployment rate of the economically active population in rural areas was 26%. The pressure to find employment drives a fraction of workers to big cities. Every year, there are 55,000 – 80,000 immigrants from rural areas venturing to Hanoi and Ho Chi Minh City (Study on immigration in Vietnam, 1998). They normally end up working in informal activities in urban areas.

While the underemployment rate is viewed as a pressing matter in rural areas, it is a big problem in urban areas. Underemployment reached 6.28% in July 2001. In several big cities, such as Hanoi, an even higher rate was seen: 7.4%; in Ho Chi Minh City: 6.04%; Haiphong: 7.11%; Cantho: 6.82%. For one, the unemployed have low income due to poor individual savings with limited support from family and friends;

furthermore, unemployment insurance has never existed in Vietnam. In response, the unemployed have to seek jobs. Even those who obtain retrenchment benefits still seem to find it hard to make a living. Finding employment in the formal sector is very difficult; hence many out-of-work employees have to seek jobs in the informal sector.

As a consequence, there are a large number of employees working in the informal sector. It is estimated that about 32 million workers were in this sector in 2001: 21 million were working in private agriculture, 2 million in home-based work, and nearly 11 million workers in non-farming activities.

According to a calculation done by the Department for SNA (the General Statistical Office), the informal sector contributed 35% of GDP in 1995 – an impressively high rate. More importantly, it has a great influence on job creation and has sustained a livelihood for the majority of workers.

2.2.2 Problems and Features of the Informal Sector

- a) The main objective of this sector is employment and income generation. A study by the Institute of Labor Science and Social Affairs in 1996 showed that the average monthly income per worker was 414,000 dong, as high as 86% of that in non-state small enterprises. However, the working hours are generally longer than usual (10 to 12 hours per day);
- b) They comprise mostly micro-enterprises, self-employment or subcontracting with irregular workplaces and working hours, often with poor working conditions;
- c) They are illegal and therefore outside of official statistics and government regulation as well as labor and social protection. There is no work safety and no access to compulsory social insurance and health insurance;
- d) They lack assets and capital and have little access to the formal financial market;
- e) Workers in this sector are often untrained so the chances of finding jobs in the formal sector are very low.

2.2.3 Social Assistance and Services: Benefits and Transfers

There are three nationwide funds for social assistance:

a) Social Guarantee Fund for Regular Relief (SGFRR)

This fund operates a categorical benefit system for a defined group of people who are assessed as being unable to provide for themselves or to be supported by family members. The Fund also finances some institutional placement and social rehabilitation programs.

The following types of social assistance are included:

- **Regular monthly benefits for the elderly alone, orphans, and disabled civilians.** These groups are regarded by the authorities as being genuinely unable to assist themselves, namely: a) The 'elderly alone' (frail elderly people who are in extreme poverty and have no other family members to assist them). People receiving social assistance benefits are a small proportion of the total elderly population. The numbers represent about 0.8% of those aged 60 and above. In 1999, about 51% of those deemed eligible for assistance actually received it. b) Orphans. Orphans and unsupported children are a growing problem in Vietnam. Street children exist in large numbers in all the major cities. The number of orphans in 1999 was about 156,000; from this number 40,500 receive social assistance (26%). c) The seriously disabled. In 1999, Vietnam was estimated to have about 5 million disabled people, 1.3 million of which were severely disabled. Due to the large number of disabled, those capable of suitable employment or those supported by their families as well as those receiving disability or invalids pensions from the government as former civil or military employees are excluded from receiving Social Guarantee Fund for Regular Relief assistance. In 1999, the total number of those potentially eligible was 415,444 persons, of which only 63,125 were receiving SGFRR assistance (15.2%).
- Temporary benefits for a small group of **homeless people**, also described as homeless vagrants or vagrant beggars, and for the support of a small group of children in extreme circumstances. In 1999, there were 2,010 people described as homeless or vagrant beggars receiving SGFRR assistance out of a total of 32,800. Of these, 1,665 were being cared for in social protection centres, and 27,000 provided with subsidies to live in the community.
- **Institutional placements in social protection residential centers** for a minority of people within these groups. Included in each of the SGFRR beneficiary groups are those placed in social protection institutions. These involve higher unit costs than community placements, typically 4,934,000 dong per year in social protection institutions compared with 540,000 dong per year for those staying in the community.
- **Rehabilitation Programs** designed to deal with 'social evils', i.e. the medical-social problems group (HIV/Aids cases, prostitution, and drug addicts). In 1998, the SGFRR funded 60 centers dealing with drug addiction, HIV/Aids and prostitution. The total cost was about 59 billion dong.
- **Supplementary Assistance** from the SGFRR sometimes takes the form of funding exemptions from, or concessions on educational fees for children, grants for textbooks and notebooks, and health assistance. In practice, some costs appear to be charged to HEPR and other development programs as well. In 1998, 682,999 students received assistance in paying school fees; 352,043 students received textbooks and/or notebooks; and 1,065,880 people received Health Insurance Cards.

Financing of the SGFRR comes mainly from the budget of the central government. However, some funding is raised locally, and the more prosperous provinces tend to

pay higher benefit rates than the minimum laid down by the government. Some provinces appear to provide benefits to certain low-income people not included on the official lists.

b) Contingency Fund for Pre-Harvest Starvation and Disaster Relief (emergency)

The Contingency Fund for Pre-Harvest Starvation and Disaster Relief covers two areas of social relief: a) It acts as a focus for providing aid when natural disasters strike an area; b) It provides supplementary assistance to very poor people, much of it in the form of food aid (or cash to buy food) in the pre-harvest starvation period.

Some forms of supplementary assistance (e.g. waiver of school fees) are also sometimes charged to this fund.

– Disaster Relief

Vietnam is situated in a part of the world highly prone to natural disasters. It is in the North equatorial typhoon belt, and is subject to floods, droughts, landslides, tidal invasion, forest fires, and frequent harvest failures in local areas. Disasters occur quite often every year. The disaster relief component of the fund is designed to deal with at least some of the consequences of natural disasters. Other components include medical assistance and the rebuilding or clearing of roads and infrastructure, and seed or other assistance to farmers to replant devastated croplands.

Major outlays for disaster relief from the Contingency Fund in recent years have varied according to the severity of damage. In 1997 for example, disasters destroyed 114,408 dwellings, seriously damaged 167,560 and killed 3,062 people.

Assistance provided under the Contingency Fund covers only part of the losses households suffer. The priority is to save lives and prevent disaster-linked deaths such as death from subsequent starvation. Actual deaths from the disasters are compensated at a standard payment of 1 million dong per death, but most compensation for property damage is a partial grant-in-aid. Local authorities make assessments of damage and claims put forward for verification. Out of whatever Contingency Fund money they have on hand or extra funds received from the government and international agencies or other donors, the local authorities decide what if any compensation is to be given to those who have suffered property damage or other losses.

While there is no formal schedule of assistance for destroyed or damaged houses, calculation of average payments suggest that grants may normally be around 1 million dong for a destroyed house, and half a million dong for a damaged house.

– Pre-Harvest Starvation Relief

In 1999, a total of 1.3 million people were given grants for purposes classified as pre-harvest starvation (50% of total eligible persons). These are people suffering from pre-harvest problems, from poverty, unemployment and other problems. Normally, these people have real incomes below the poverty level throughout the year.

Some food starvation situations may arise from other incidents, for example the need to pay medical costs because of serious illness. Also, some food aid is given to allow poor people to celebrate the Tet New Year festival.

The average grant amounts to about 50,000 dong per person assisted. In purchasing power terms this might enable a person to buy 20 to 30 kgs of rice at rural prices, depending on the location and seasonal factors.

Allowance for the Contingency Fund is built into the approved budgets of local authorities. In addition to the centrally provided funding, local authorities are expected to raise some of their own resources to deal with problems. When major disasters strike, resource levels are inadequate and additional resources have to be sought from national organizations, NGOs and foreign donors.

2.2.4 Voluntary Schemes: Savings, Credit and Micro-insurance Schemes

Savings schemes and small credit schemes have been newly introduced in Vietnam. There is a growing body of evidence from microfinance schemes working within Vietnam that rural households, even poor rural households, are able and eager to take loans at unsubsidized rates of interest and repay them. Microfinance activities are becoming extremely important to households with limited access to formal financial services. The Vietnam standard of living survey revealed that 70% of credit for households comes from informal resources, including savings schemes and small credit schemes.

A recent study on microfinance in Vietnam showed that by the end of 1995, there were 534 People's Credit Funds (PCFs) with 150,000 members. These funds provided loans of up to US\$35 million. Some mass organizations participated actively in micro-credit activities such as the Vietnam Women's Union (VWU), which organized 50,000 savings and credit groups nationwide.

All of the PCFs provide loan and credit services with facilities for personal savings. There are also credit funds provided by NGOs, which are not required to combine offering credit with savings facilities.

Recently, various voluntary schemes for farmers have been running at the commune level. Most schemes base contributions and benefits on the price of rice. Since prices fluctuate and crops are uncertain, this poses a problem for financing and inevitably some of these schemes have collapsed, though others are still functioning. It is suggested to design simple and modest schemes for rural workers with adequate average incomes. The objective would be to establish a base for gradual implementation to ensure sustainability and extension of coverage.

2.2.5 Others

A number of other forms of social assistance exist in Vietnam. NGOs and other organizations also provide assistance to some groups of people under development or disaster relief programs.

The other main forms of assistance are grants and concessions under the various development programs, particularly HEPR. Assistance takes the form of concessions or exemptions from school fees, funds to buy textbooks or notebooks, health cost coverage or provision of health insurance cards, and remissions of local taxes due. In some remote areas, subsidies are provided for items such as iodine salt. In practice, there seems to be a blurred boundary concerning which funds are charged for a number of these forms of supplementary assistance.

Apart from these social protection provisions, Vietnamese households, particularly poor rural people, rely heavily on informal social protection based on family, community, and other contacts. This includes support between extended family members, informal work and food assistance between neighbors, and loans from family, neighbors, and moneylenders.

2.3 Labor Market Policy

The evolution of the labor market must be considered in the context of broader economic policies. The labor code and a number of other laws such as the law on SOEs, the enterprise law, and the law on foreign investment in Vietnam are designed to provide a common legal framework for labor-management relations in both the public and private sectors. Labor market policies, however, are still in their initial stage of formulation and development.

2.3.1 Active Labor Market Policy

Creating Job Opportunities (Labor Demand)

Creating jobs for workers is one of the top priorities of Vietnam's socio-economic policies. To date, the climate for private sector development is improving. The private sector has become an engine of growth and job creation. 90% of all jobs are generated there each year.

At present, over 90% of all enterprises are small and medium size (SMEs). In industry and services, the development of SMEs is a new and predominant model of job generation. Different measures have been applied to help SMEs. The government has provided a portion of the initial capital for setting up a credit guarantee fund. The function of this fund is to help SMEs borrow from banks. Other organizations such as VCCI (Vietnam Chamber of Commerce and Industry), VICOOPSME (Vietnam Cooperative and Small and Medium Enterprises), the Vietnam Women's Union, and the Youth Union have also helped the development of SMEs through their activities.

In order to reduce poverty incidence and generate employment for people, the government has implemented a number of national target programs; among them are the National Program on Employment (NPE) and the National Target Program on Poverty Alleviation (NPHEPR).

The main objective of the NPE is employment creation. The NPE has a four-year budget for 1997 to 2000 of 4,800 billion dong. From this amount, 2,480 dong will be

drawn from the state budget, with the balance coming from international agencies and enterprises. Of the total, 4,693 billion dong is proposed to go into development loans.

The government gives priority to providing loans for small projects which generate many jobs and absorb as many female workers, poor, and unemployed as possible. Through these projects, the government encourages the community and mobilizes people's capital for production and business.

The basic objective of the NPHEPR is poverty alleviation. The NPHEPR has a target budget of 10,000 billion dong for the period 1998–2000, with funding sources comprising a mix of state budget, credit institutions, international agencies, and other sources.

NPE and NPEHEPR are considered target means of generating 25,000 – 300,000 jobs annually, providing short-term training and employment services to hundreds of thousands of workers and reducing poverty by 2% per year. However, there are also problems, such as complicated implementation procedures, low sustainable employment, and difficulties in assessing efficiency and effectiveness, to name a few.

NPHEPR lending through the Bank for the Poor targets poverty groups and is not based on the availability of collateral. The Bank for the Poor was established and went into operation in 1996. About 70% of funds for poverty alleviation are under the management of this bank. By the end of 2000 it provided more than five million households with a loan of 1.3 to 3 million dong, with one- to two-year terms at a preferential interest rate of 0.8% per month. Apart from this, the credits for the poor are also provided by the Bank of Agriculture and Rural Development, the national programs on re-greening bare hills, employment promotion, resettlement and support to the ethnic minorities who were in extremely difficult situations.

Public investment in infrastructure is another important field in creating jobs. The government implemented a number of programs targeting rural transportation, electrification, irrigation, markets (for the sale of goods) and set up a rural service center. Millions of working days have been absorbed into these programs every year.

Other mass and social organizations are also engaged actively in employment creation activities, the most active being the Labor Confederation, the Vietnam Women's Union, the Vietnam Youth Union, and the Peasants' Union. The main activities of these organizations are providing consultation services for their members in designing small projects in order to get loans and develop employment service centers, mobilizing capital and giving technical and marketing guidelines to help their members, especially for such vulnerable groups as the poor, women and the young.

Human Capital Formulation, Skills Development

One of the main objectives of the NPE is to increase the proportion of the workforce with skills training. Priority in job expansion is given to vulnerable groups including the disabled, war veterans, demobilized military personnel, redundant workers of

state enterprises, and women. The Centers for Employment Services (CESs) play a key role in this process. CESs provide vocational training courses in connection with employment for workers. From 1992 to 2000 there were 700,000 workers trained and about 870,000 were introduced to employment by the centers.

Different extension programs in agriculture, forestry and fishery have provided short-term training courses to hundreds of thousands of people. These programs help people to better utilize their working time and generate more income.

Bilateral and multilateral organizations also provide assistance through programs on human resource development, vocational training, improvement of policies related to the labor market, promotion of small and medium enterprises, support for hunger and poverty reduction campaign, and so on.

Matching Job Seekers

The government provides support to centers for employment services to assist in the implementation of vocational training functions, advice on occupational orientation and provision of job services for workers in the labor market. From 1992 to 2000, the CESs had advised on employment for 2,000,000 persons. These centers also provide information about vacancies as well as worker requirements.

2.3.2 Passive Labor Market Policy

Education and Training System

Historically, education has been highly valued among Vietnamese people. After independence, the government undertook a major initiative to expand the public education system. Education is a high priority for government policymakers. In fact, during a period of economic difficulty and state budget retrenchment in the early 1990s, education was one of the few sectors protected.

Vietnam's public education system has out-performed other public initiatives. Population literacy stands at nearly 91% and gender differences are comparatively small. Primary school enrollment is almost 100%. However, major regional differences in educational indicators exist. For example, literacy rates in mountain provinces are as low as 50%. Although national primary school enrollment rates are nearly 100%, they are significantly lower in mountain, central, and Mekong Delta regions. In these areas, gender disparities in enrollment rates and literacy are greater. Institutionally, the education sector is becoming more diverse. Government policy encourages the establishment of private educational institutions. Vocational training programs, which are generally short, are open to students who complete primary or lower secondary education and who are not likely to proceed further in the formal education system. Secondary vocational education programs last three to four years and are also open to students who leave primary and lower secondary school. Professional secondary education lasts two to four years and students completing upper secondary school may attend these programs.

The quality of training, vocational education and even tertiary education, however, is somewhat hampered by the organization and structure of these sub-sectors. Currently, technical and vocational education and training is mainly a state-driven system that suffers from fragmented management, has a large number of uncoordinated external supporters, and does not systematically respond to the needs of the labor market.

Measures taken to help workers

Reform of state-owned enterprises is presently the main focus of the government. As part of the state enterprise reform program, equitization in Vietnam started with a pilot program in 1992.

Employees of equitized SOEs benefit from the allocation of dividends from a portion of state shares, not exceeding 10% of the enterprise value to employees during their lifetime. The rest will be divided into two parts: one part (30%–50%) belongs to the state and the second part will be sold to external buyers. The value of dividends allocated to each employee for this purpose will not exceed the equivalent of a six-month salary as stipulated in the state salary scale. The state shall remain the owner of these shares.

Employees are also entitled to purchase JSC (Joint Stock Company) shares on credit (5-year term with an annual interest rate of 4%). The value of these shall not exceed 15% of the enterprise value (or 20% in special cases). Detailed conditions for the purchase of shares on credit are stipulated.

Finally, all employees will be guaranteed the right to continue their work at a JSC after equitization. If, 12 months after the registration date of a JSC, an employee becomes redundant due to restructuring of the company, this employee will then benefit from the policies stipulated in article 17 of the Labor Code and the government decree 72/CP of October 31, 1995 (see Section 2.1.3).

The government also applies early retirement schemes and retrenchment payments. It is estimated that the government has to spend 6,000 billion dong in three years starting from 2001, in order to reduce the number of workers in the state sector by 15% (administration and SOEs).

Minimum Wage Policy

The government sets a minimum wage rate intended for ‘the worker doing the simplest work in normal working conditions’. It is also adjusted periodically to maintain the cost of living. The government sets different minimum wage rates for different sectors. The rate applied to joint ventures is higher than the rate applied to domestic enterprises.

The minimum wage applied to domestic enterprises and administration is 21,000 dong per month (US\$14). The minimum wage applied to joint ventures ranges from US\$30 to \$45 per month depending on the location of the enterprises.

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage

Social Insurance

The coverage of compulsory social insurance has reached only 16% of the labour force, which implies that the total number of contributors is just over 5 million people.

The voluntary social system that covers self-employed laborers as well as farmers and laborers in rural areas, and facilitates the participation by all people in social insurance is still in the infancy stage and coverage is very limited.

Health Insurance

The coverage of HI has expanded very fast. The VHI estimates that in 1999 the number of insured people was about 10.5 million, three times higher than in 1993. Approximately 6.3 million persons (including 2.77 million pensioners and eligible persons) are part of the compulsory scheme, and 3.6 million are in the voluntary schemes (including 3.5 million school children, i.e. 96.8%). 572,000 poor persons were provided HI cards by the government. However, HI still covers only about 14% of the total population.

Social assistance

Social assistance is characterized by the low probability of receiving benefits, and very low average payment rates. It is estimated that about 38% of those eligible actually received some kind of social assistance in 2000.

3.2 Feasibility

Social Insurance and Health Insurance

The system of benefits suffers from serious defects, which detract from its effectiveness and its efficiency at targeting the resources available, including:

- Actual benefit amounts are much lower proportions of actual earnings than the rates would suggest, as they are percentages of basic salaries without any extras, whilst survivors' pensions, which are especially important to women and children, are related to minimum wages instead of average earnings;
- Structural and other deficiencies in sickness and maternity benefits, including the restriction of maternity allowance to two births and the lack of contribution conditions;
- The different treatment accorded to essentially the same contingencies under the employment injury and pension branches respectively;
- The limited provision for permanent invalidity;
- Entitlement to retirement pension (RP), which is the most costly benefit, is normally subject to stringent conditions, but the VSI scheme has low pension ages, especially for women; special, easier qualifying rules for particular categories of workers, and it does not enforce the retirement rule effectively.

The ILO has recommended that health insurance should be integrated with the other social insurance benefits by merging VSI and VHI, whilst retaining separate funds. This would improve policy cohesion and the legal framework and establish a better basis for enforcement. Close co-operation of the two organizations is proposed, especially by harmonizing their legislation for the purpose of intensifying compliance activities and unifying the collection of contributions.

Social Assistance

Presently, allowance for the Contingency Fund is built into the approved budgets of local authorities. In addition to the centrally provided funding, local authorities are expected to raise some of their own resources for dealing with problems. The mixed funding sources and mixed purposes of the fund lead to a number of practical problems at the local level.

In the future, funding should be allocated to provinces, districts, and communes on the basis of verified disasters in their areas. When disasters strike, local funds can be mobilized for immediate relief until the central fund transfers the necessary resources.

The Pre-Harvest Starvation Relief could continue as a social assistance system for which regular funds are provided by the central government for disbursement at the local level (for the time being by communes). The separation would allow Pre-Harvest Starvation Relief to be redeveloped and expanded as a social assistance system for the working poor and for those not covered by social insurance.

3.3 Financial Sustainability

The fiscal cost to the central government of total social transfers aggregate to around 14% of government spending or above 3% of GDP.

Social Insurance

At present, the state budget is responsible for over 88% of total costs. The system depends heavily on state subsidies.

The projection under the ILO/Netherlands social security project – ILO/TF/Vietnam revealed that the state budget expenditure on social security would rise steeply from 5,600 billion dong in 1999 to 10,500 billion dong by 2015 and only then begin to decline.

In view of these considerations, it is suggested that the voluntary defined contribution approach should be regarded as a transitional phase and that the policy objective should be to establish a compulsory defined benefit scheme as soon as conditions allow. The objective would be to establish a basis for gradual implementation step by step to ensure sustainability, and also progressive extension of its scope of coverage of persons and contingencies in order to gradually meet the needs of the agricultural sector for social security protection.

In fact, various voluntary pension schemes for farmers have been running for several years, usually at the commune level, and are paying modest pensions to eligible

members. As mentioned above, most schemes base contributions and benefits on the price of rice. Since prices fluctuate, this poses problems for the financing of voluntary schemes and inevitably some have collapsed, though others are still functioning.

There are risks that the proposed provincial pension schemes will come under pressure to permit withdrawals from individual accounts by members who are suffering severe financial hardship for any of numerous reasons, such as individual or general crop failures and devastation caused by the regularly occurring natural disasters. Since the official relief schemes are quite limited, it could be difficult to refuse such requests for the release of part or all of the individual balances.

Health Insurance

VHI suffers from the same non-compliance problems as VSI, but is more affected by the low rate of contributions and under-payments because the costs of medical treatment of individuals are not related to the amounts paid in contributions. The recent ILO actuarial valuation found that 16 out of 61 provincial funds had deficits in 1997.

Social Assistance

Financing of the Social Guarantee Funds comes mainly from the budget of the central government. However, some funding is raised locally, and the more prosperous provinces tend to pay higher benefit rates than the minimum laid down by the government. It remains a problem that some provinces appear to provide benefits to certain low-income people not included on the official lists.

NTPE and the NTPHEPR

Overemphasis on subsidized credit to households was a major problem as it both limited the overall reach of the programs and tended to direct credit at more dynamic and better informed households, to the detriment of those most in need. The heavy emphasis on farm lending is unlikely to create many additional rural jobs in the non-farm sector where the greater potential for employment creation lies.

Other problems, which are likely to constrain the longer-term value of the programs, include insufficient emphasis on vocational education and training; inadequate attention to rural industrialization and insufficient attention to the role of paid wage labor on infrastructure projects as a means of reducing poverty.

Redressing the problems would require a mix of mutually supportive strategies and action at three levels – the macro-level to create an appropriate environment for the dynamic and responsive evolution of the programs; at the meso-level for capacity and institution building and at the micro-level to publicize the programs, improve access to them, and support the users with appropriate training and services.

3.4 Gender Equity

Vietnam has had formal legal equality between women and men for many years. In most respects, the formal social protection programs incorporate this legal equality.

However, there are a number of long-standing gender issues. These include the lower average educational, occupational, and earnings status of women, the 'double shift' problem where women are expected to work full time in paid employment as well as carry out the bulk of household and family duties, and occupational health and safety issues which affect women more than men. More recently, unemployment has risen faster amongst women.

Within the social insurance system, gender issues include the limitation of maternity leave to two pregnancies and the lower pension age for women. While the lower age policy enables women to retire earlier, it also means lower retirement pensions and re-employment on less favorable terms.

3.5 Costs of Administration

The use of general-purpose commune administrations to pay benefits at the local level is possibly a pragmatic way of dealing with the lack of special purpose government agencies at the local level. It is also a way to reduce the cost of administration.

In March 2002, in order to improve the efficiency and effectiveness in the operation of the system, as well as to reduce administrative costs, the Vietnamese government decided to absorb the VHI into the VSI, resulting in one unified agency.

3.6 Targeting

The targeting efficiency of the social protection system appears to be low. Even within the very restrictive definitions of those entitled to assistance, only a minority of those apparently eligible for benefits actually receive them, and the probability of receiving a benefit seems to vary according to geographic location. This may be in part because the criteria for assistance (insurance) are open to flexible interpretation at all levels, especially the local level.

However, the very low numbers of beneficiaries granted assistance (the equivalent of only 0.2% of the population) suggests that the main problem is inadequate funding. This leads to low benefit grant rates and to extreme poverty amongst many of those in need who do not in practice receive assistance from the fund.

4. Development of Innovative Programs and Alternative Social Protection Schemes

4.1 Selection of Models and an Appropriate Social Protection Scheme

The social protection scheme of a country depends on the development patterns and economic system of the country. The development model and economic system must be designed to ensure a harmonized combination of economic growth and settlement of social issues in conformity with principles of equality and social advancement. The appropriate economic system for Vietnam is an open market economy in combination with national cultural values. Vietnam is in a transformation process. The development model and economic system selected by Vietnam is a socialism-oriented

open economic system with the strategic goals of ‘wealthy people, powerful country – equality – democracy and civilization’. The future social protection scheme should be designed according to the following criteria.

The selected models for a social protection scheme:

Level	System	Social risks	Target groups
Level 1: Social security	1. Health care insurance	Sickness, illness	All citizens
	2. Security on labor injury and professional diseases	Labor injury, professional diseases	Workers
	3. Pension	Elderly	All citizens
	4. Unemployment security	Unemployment	Workers
Level 2: Affirmative policy on labor market	1. Vocational training, retraining	Unemployment and underemployment	Jobless people, laid-off workers
	2. Creation of temporary jobs in the public sector		
	3. Assistance for self-employment (credits)		
	4. Assistance on job matching		
Level 3: Social assistance	1. Social extraordinary contingency funds	Poverty	Low-income earners, vulnerable social groups
	2. Social Guarantee Fund for Regular Relief		

With the above-mentioned social and economic system, the social protection scheme should be renovated in a way that ensures the use of market principles, safeguards social benefits for all people and facilitates their development. It must be an integrated system consisting of the following: Social security with contributions by all partners (pay-as-you-go), widening of social services, particularly basic social services, social assistance to vulnerable groups and designing of an encouraged policy on the labor market.

A model designed as mentioned above allows developing a social protection scheme on the basic principles of consistency, integration, mainstreaming and interrelation.

4.2 Enlarging the Scale and Coverage of Beneficiaries

The biggest problem of the current social protection system is the poor coverage, mainly limited to the formal sector. Thus, when implementing a revised strategy of social development, it should gradually enlarge the scale of coverage and multiply the beneficiaries for the following sectors:

- Farmers, rural workers;
- Workers in non-agricultural individual household businesses;
- Workers in the informal sector.

In the case of Vietnam, in addition to the above-mentioned target groups, the social protection scheme should pay more attention to the regions which are in greater danger of national disasters. This means that the setup of a policy and program on

national disaster prevention must be included in the national social protection scheme.

The strategic direction for enlarging the scope of coverage and beneficiaries leans towards the informal sector. However, this cannot be determined in a short time. Furthermore, the scope of the informal sector is too large, with very poor economic conditions. It needs long-term five-, ten-, and twenty-year plans, depending on differing country conditions. Many policies on social protection should be implemented on a trial basis before full implementation. For Vietnam, there should be in-depth research conducted and trial implementation of a social security scheme for farmers, workers in non-agricultural individual home-based businesses or unemployment schemes for laid-off workers.

In the informal sector, where the levels of legislation implementation and labor productivity are low, the applicable social protection scheme should be different from the one for the formal sector. In these schemes, the rate of contribution as well as the benefits and assistance rates should be lower than those in the schemes applied for the formal sector.

The direction is to expand the coverage step by step and to reduce the gap between the schemes for the formal sector and informal sector respectively, as conditions allow.

4.3 Strengthening the Role of the State and Enlarging the Participation of the Private Sector

Increasing the participation of social partners, particularly in the private sector, is one of the most important approaches to strengthening the recourse for the social protection scheme, and decreasing subsidies from the state to better harmonize with open market mechanisms. This approach shall be considered in the following dimensions:

- Applying market methods to preserve values and increase the available funds for social protection (participation in the program and investments);
- Mobilizing contributions from the private sector to increase the funds for social protection (sharing with the state);
- Increasing opportunities for individuals who are beneficiaries complying with the publicized principles of democracy and transparency.

In addition, the social protection scheme is a basic national social policy; the state should thus strengthen its role and pay more attention to the scheme. The role and responsibility of the state can be described as follows:

- To formulate strategies, issue policies and laws, and draw up a legal framework on social protection;
- To set up and implement National Target Programs on social protection;
- To adjust the public expenditure structure in order to increase investment from the state budget for social protection.

Regarding the reform of the social protection policy, it is fundamental to build up a supply network of social protection and social services, especially basic social ser-

vices to make sure that the beneficiaries will have access to high-quality services. At present, these services are provided mainly by the state, but in the near future the private sector should play a more important role, primarily in medical services, education, clean water supply, environmental sanitation, micro-credit for the poor, employment services, and vocational training.

Social security in the formal sector is supplied by the state. In the future, the state will continue to play a leading role. However, Vietnam should consider the possibility of the private sector implementing some social insurance schemes, beginning with the informal sector.

The social protection service network is defined as non-profit, drawing the participation of state, private sector, and NGOs. It is organized as a unified planning network with respect to interactive and co-operative linkages and supported by the state as and when needed.

It is likely that an enhanced state role and responsibility with the wider participation of social actors and the private sector under the auspices of the state in a civil society is a guarantee factor for a successful outcome of the existing social protection policy in the future.

4.4 Structure of the Contribution Rate of Participants in the Social Protection Scheme

– The social insurance scheme for the formal sector in Vietnam has a total contribution rate of 23% (including health insurance). It is lower than in other countries, and varies between the rate contributed by employees and employers with employers paying three times more than employees.

At present however, raising the contribution rate will result in an additional financial burden on enterprises, resulting in higher bankruptcy risk and diminished possibility of contributing to social insurance. During the next five or ten years, it will be necessary to adjust the rate to around 30–32%, as in other countries, and at the same time change the rate between employers and employees to 50% each.

Concerning social insurance, the state acts as employer and contributes for employees working in public administrative agencies. Yet it supports and assists in some urgent cases to guarantee the safety of people, especially in cases of economic crises, severe natural disasters and wars by developing the Social Insurance Fund.

In Vietnam, social assistant funds (including emergency and regular relief) are balanced in the contingency funds in the budget of communes and ensured at a minimum level. This is considered a big problem at the moment. The basic orientation in social protection policy reform is to split the social assistance funds from the contingency budget to create an independent fund. This fund should be mobilized by different sources such as the state budget, the public and private sector and international aid. However, the state should adjust the public expenditure structure to increase investments in this fund.

- Under the active labor market policy, Vietnam established a National Fund for Employment Promotion (NPE) in 1992 to serve for loan provision under small-scale projects, vocational training and employment service. Besides the Fund for Poverty Alleviation and other charity funds, these funds are mainly formed from the state budget at central and local levels, personal and private sector contributions and international cooperation. In the future, the state will continue to increase the investment level from central and local budget sources, yet it is also necessary to raise the personal and private sector contributions to this fund.
- Social protection funds (social insurance, regular and emergency relief funds, the fund for employment promotion and poverty alleviation and other charity funds) operate under the principle of complementarity, mutual assistance and risk sharing. Hence, it is important to ensure the balance of funds (collections to expenditure) to assure the efficiency and sustainability of the policy. The fund for social insurance and the fund for employment will remain particularly important. Hence, the conservation and increase of these funds' values are firmly assured. In response, the following solutions are needed.
- Create capital turnover to loan based on market interest rates and procedures (all economic, credit organizations and individuals should be able to access this loan). This is based on different studies by national and international agencies, which recommend that in order to increase the efficiency and effectiveness of credit funds, the loans given to borrowers (including the poor and disadvantaged) have to be determined on market interest rates rather than preferential rates.
- Give priority to investment in socio-economic projects with high efficiency and low risk such as real estate, export and import.
- Give assistance from the state budget based on public expenditures restructuring as an investment for social development.

4.5 Development of Social Safety Net Programs

According to the new concept, social protection is defined as including social insurance, social assistance and labor market policies. However, more provisional resolutions need to be added, especially concerning risks, economic shocks, social changes (local war, racial war, terrorist war), institutional reforms (especially in a transitional economy such as Vietnam's) and natural disasters. The above resolutions are included in social safety net programs.

The target groups of social safety net programs are chronically or temporarily poor people, people affected by crisis and/or social changes, institutional reforms, and natural disasters. Unless social safety net programs do not support these people, they will fall into poverty.

Concrete social safety net programs are formed depending on specific circumstances and the status of the country. However, the most important components are as follows:

- Programs on unemployment reduction and income generation. These programs focus on supporting job creation, training and retraining, supporting small-scale loans to create employment and job placement for out-of-work people as well as redundant workers who have been laid off because of institutional reforms (especially in state-owned enterprise restructuring in transitional countries).
- Programs on hunger eradication and poverty reduction. These programs focus on creating more opportunities for poor people to develop production, raise income, and provide access to high quality social services at low cost.
- Programs providing social services, especially basic social services such as health care, reproductive health, education, anti-malnutrition for children, and clean water supply, in a timely manner for poor people, and disadvantaged and vulnerable groups.
- Programs and projects on community development to form and build up community organizations in order to promote supportive activities to different target groups, especially women, children, the elderly and disabled in a community.
- Programs supporting specific groups of people such as ethnic minorities in remote and upland areas, poor widows, orphans, the disabled, immigrants, as well as others, to help them better integrate into the community.

Vietnam is still a poor country and engaged in an institutional reform process. It also suffers heavily from a longstanding war and natural disasters. Under these circumstances, the development of social safety net programs as *ad hoc* measures to support the above-mentioned social groups is becoming of greater significance. The Vietnam government pays particular attention to this issue and intensifies efforts to invest in these programs from the state budget and takes advantage of local as well as international cooperation.

5. Policy Recommendations

5.1 In order to reform the social protection system, the government should design a research project to comprehensively analyze and assess the efficiencies and advantages of the current scheme. This should be done in addition to studies on international experiences, and to propose a new social protection scheme with respect to the specific situation in the country and in observance of international tendencies. This research should cover the following components:

- Assessment of the role of the government and social counterparts in the social protection scheme;
- Identification of a methodology for building employment policies, unemployment insurance, active labor market policies and social safety net programs.
- Evaluation of financial resources of the social protection scheme;
- Assessment of the social protection management capacity.

5.2 A country policy on social protection (or strategy on social protection) should be developed, in which priorities, interaction between social insurance and social

assistance, labor market policy, social safety net programs and different roles of the state agencies and other stakeholders in the national social protection scheme are identified. Strategies of promoting social protection schemes would be to ensure that the schemes are fiscally sustainable even at the aggregate level; that they offer incentives, and are well-targeted and effective in terms of delivery.

- The benefit level of social insurance should be confined to affordability based on contributions. Fiscal prospects should be projected on a regular basis and benefit-contribution schedules should be adjusted accordingly as unexpected changes such as ageing, economic uncertainty, and global and regional crises occur.
- Incentives provided by social protection should be compatible with outside options. The level of benefits and the method of support need to be designed so that work incentives will not be undermined.
- Those most in need should be the actual recipients of social protection schemes. Systematic analysis on the major demographic and socio-economic characteristics needs to be performed and eligibility criteria, task selection and the method of informing people should be determined accordingly, based on the analysis.
- Performance of delivering personnel should be evaluated on a regular basis and reflected in promotions and earnings of the staff.

In order to achieve these objectives, a plan on social protection development needs to be set up with the following activities:

- Determine the components of the social protection programs including social insurance, unemployment insurance, health care, the social guarantee fund for regular relief, the contingency fund for Pre-Harvest Starvation and Disaster Relief and social safety nets, of which the program supporting new initiatives of social insurance development for the informal sector should be paid particular attention;
- Finalize the designing plans and carry out the social protection programs;
- Consider the feasibility and stability of the program, focusing especially on financial and fiscal resources;
- Properly determine the target groups on the basis of formulating criteria to classify eligible persons in every social protection program;
- Complete the management system, the supervision and assessment system of the programs.

5.3 In the future, the social protection scheme should be developed with the participation of the state, then enlarged and transferred gradually to the private sector as well as organizations and individuals. This scheme should also be highly decentralized to the local level in a unified network. However, this process should be institutionalized by laws, of which the most important components are as follows:

- Reviewing, revising and adding more articles of the Labor Code including the chapter on social security, employment and the labor market;
- Formulating a law on social security, unemployment and health insurance;

- Delivering regulations on social security for the informal sector in the urban and agricultural sectors.
- Formulating and completing functions, tasks, and duties as well as the structure of social security agencies at central and local levels.

5.4 Cooperation in using ICT (Information and Communication Technology) to form a scheme on social protection management information. All countries should promote work in terms of research on indicators as well as from the social protection management information system, including information on social insurance, health insurance, unemployment insurance, permanent relief, and labor market information. The Internet should be used in the above systems. This information system could be available on-line in order to compare countries in the region. To fulfill these requirements, it is necessary to improve materials and technical facilities, to have countries cooperate and exchange experiences, and to train staff and improve the capacity of governmental bodies and counterparts in the social protection scheme.

Appendix

Table1: Number of People Aged 15 or Above Having a Regular Job (by industry group)

Year	Total (persons)	Of which		
		Agriculture, forestry and fishery	Industry and construction	Services
1996	34,907,659	23,466,729	3,682,084	6,858,848
1997	34,716,375	22,858,115	3,476,210	8,382,050
1998	36,018,346	22,867,823	4,298,464	8,852,059
1999	35,731,076	22,725,556	4,450,209	8,555,311
2000	36,205,562	22,669,907	4,743,705	8,791,950

Source: Surveys on labor and employment, Ministry of Labor, Invalids and Social affairs

Table 2: Labor Force Structured by Industry Groups

Year	Total (%)	Of which		
		Agriculture, forestry and fishery	Industry and construction	Services
1996	100	69.80	10.55	19.65
1997	100	63.49	11.93	24.58
1998	100	63.49	11.93	24.58
1999	100	63.60	12.45	23.94
2000	100	62.61	13.10	24.28

Source: Surveys on labour and employment, Ministry of Labour, Invalids and Social affairs

Table 3: The GDP Growth Rate 1990–2001 (at constant prices of 1999)

Year	Total (%)	Of which		
		Agriculture, forestry and fishery	Industry and construction	Services and tourism
1990	5.09	1.00	2.27	10.19
1991	5.81	2.18	7.71	7.38
1992	8.7	6.88	12.79	7.58
1993	8.08	3.28	12.62	8.64
1994	8.83	3.37	13.39	9.56
1995	9.54	4.80	13.60	9.83
1996	9.34	4.40	4.46	8.80
1997	8.15	4.33	12.62	7.14
1998	5.76	3.53	8.33	5.08
1999	4.77	5.23	7.68	2.25
2000	6.75	4.04	10.07	5.57
2001	6.8	2.80	10.40	6.10

Source: General Statistical Office (GSO).

Table 4: GDP Structure by Industries (at current prices)

Year	Total (%)	Of which		
		Agriculture, forestry and fishery	Industry and construction	Services and tourism
1990	100	38.74	22.67	38.59
1991	100	40.49	23.79	35.72
1992	100	33.94	27.26	38.80
1993	100	29.87	28.90	41.23
1994	100	27.43	28.87	34.70
1995	100	27.18	28.76	44.06
1996	100	27.76	29.73	42.51
1997	100	25.77	32.08	42.15
1998	100	25.78	32.49	41.73
1999	100	25.43	34.49	40.08
2000	100	24.30	36.61	39.09
2001	100	23.00	38.00	39.00

Source: General Statistical Office (GSO).

Table 5: National Poverty Measure (per cent of households)*

1992	30.0
1993	26.0
1994	23.1
1995	20.3
1996	19.2
1997	17.7
1998	15.7
1999	13.1
2000	10.0

* Poor is defined as being able to afford less than 15 kilograms of rice (55,000 VND) per person/month in remote mountain areas, 20kg (70,000 VND) per person/month in other rural areas, and 25kg (90,000 VND) per person/month in urban areas.

Source: Ministry of Labour, Invalids and Social affairs.

Table 6: VSI Income and Expenditure 1995 – 1998

Year	1995	1996	1997	1998
Total income	1,978	7,026	8,804	9,384
From VSI	788	2,588	3,706	4,370
Contributions (20%)	788	2,570	3,514	3,898
Investment income	—	18	192	473
From the state budget	1,190	4,438	5,098	5,013
Pensions	1,149	4,287	5,047	4,995
Administrative expenses	41	119	—	—
Expenses on buildings	0	31	50	17
Others	—	2	1	1
Total expenditure	1,191	4,937	5,932	6,122
From VSI	42	398	706	975
Benefits	42	381	588	743
of which:				
– Pensions	13	224	372	486
– Short-term benefits	29	157	216	257
Health insurance contributions	—	1	3	5
Delivery fees	0.1	2	3	4
Administrative expenses	—	15	112	148
Expenses on buildings	—	—	—	75
From the state budget	1,149	4,539	5,227	5,147
Benefits (pensions)	1,079	4,248	4,996	4,966
Health insurance contributions	27	117	142	137
Delivery fees	6	22	26	26
Administrative expenses	37	119	12	0.2
Expenses on buildings	—	31	50	17
Others	—	1	1	1
Balance	787	2,089	2,872	3,262
Reserves (at the end of the year)	790 (E)*	2,900 (E)	5,700 (E)	8,887

* Estimate

Source: ILO Actuarial Report, 1999.

Table 7: Health Insurance Trends in Membership, Revenue and Expenditure 1993–1997

	1993	1997	Change
Contribution Revenue (billion VND)	111.00	540.00	x 4.9
No. of members (million persons)	3.80	9.50	x 2.5
Health insurance expenditure OP and IP* (billion VND)	49.00	480.00	x 9.7
Revenue/member (VND)	28,000.00	52,000.00	x 1.9
Expenditure/member (VND)	12,895.00	50,526.00	x 3.9
Net VND for health care (91.5%)	47,580		
Deficit (1997 contribution revenue)	–2,946		

* OP – outpatient, IP – In-patient.

Source: VHI.

Table 8: Spending for Social Assistance from State Budget (VND billion)

	1996	1997	1998
Total state budget expenditure	—	78,057	81,995
Total social assistance expenditure (1+2)	823	980	1,015
1. For regular relief	670	680	702
1.1. For disable people	640	644	651
1.2. For the elderly alone	18.7	21.5	26
1.3. For orphans	10.7	13.6	21.8
1.4. For vagrants	1	0.86	2.7
2. For emergency relief	153	300	313
2.1. For funerals	1.1	3.0	0.9
2.2. For the injured	0.6	0.7	0.2
2.3. For housing	55	114	14
2.4. For severely damaged houses	47	84	225
2.5. Pre-harvest starvation	48	98	73

Source: Statistics on Social Safety Nets in Vietnam, MOLISA and Statistical yearbook, 2000.

Acronyms

CES	–	Center for Employment Services
ESC	–	Employment Service Centers
FDI	–	Foreign Direct Investment
GDP	–	Gross Domestic Product
HEPR	–	Hunger Eradication and Poverty Reduction
HI	–	Health insurance
ILO	–	International Labor Organization
JSC	–	Joint Stock Company
NGO	–	Non-governmental Organization
NPE	–	National Program on Employment
NPHEPR	–	National Program on Hunger Eradication and Poverty Reduction
NSE	–	Non-state Enterprises
ODA	–	Official Development Assistance
PCF	–	People's Credit Fund
R&D	–	Research and Development
RP	–	Retirement Pension
SGFRR	–	Social Guarantee Fund for Regular Relief
SI	–	Social insurance
SME	–	Small and Medium Enterprise
SOE	–	State-owned Enterprise
VCCI	–	Vietnam Chamber of Commerce and Industry
VICOOPSME	–	Vietnam Cooperative and Small and Medium Enterprises
VHI	–	Vietnam Health Insurance
VSI	–	Vietnam Social Insurance

VWU	–	Vietnam Women's Union
TU	–	Trade Union
UN	–	United Nations

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Glossary of Key Terms

Adverse selection. Acceptance of voluntary membership of a social insurance scheme by a preponderance of persons with strong expectations of qualifying for benefits on the basis of minimal contributions.

Capitation provider payment system. A system under which a health insurance scheme pays medical providers (hospitals, clinics and individual doctors accredited and contracted to the scheme) by fixed amounts for each person registered with a provider for the type and range of care specified in the contract. The agreed capitation amounts are paid at intervals to providers regardless of whether the registered insured persons claimed medical benefits during these periods.

Consumer price index. A consumer price index measures the period to period proportional change in the prices of a fixed set of consumer goods and services of constant quantity and characteristics. The purpose of a consumer price index is to measure changes over time in the general level of prices of goods and services that a reference population acquire, use or pay for consumption.

Defined benefit scheme. A scheme which defines the standards of the benefits to be provided by means of a formula and determines the financial system accordingly. This formula, which determines pensions or lump sum payments, is tied to years worked, earnings and social criteria. Some entity (the state, employer, insurance company) bears the financial risk of the promise or entitlement embedded in the formula.

Defined contribution scheme. A scheme which defines its benefits in terms of the contributions to be paid into individual accounts, together with shares of investment income, from which the benefit will be paid when qualifying conditions are satisfied. The worker bears the financial risk. Many hybrid schemes exist that contain both defined contribution and defined benefit elements.

Gini Index. Measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. The Gini index measures the area between the Lorenz curve and a hypothetical curve of absolute equality. A Gini index of zero represents perfect equality, while an index of 100 implies perfect inequality.

GNI. Gross National Income. Following current statistical practice, the World Bank has recently adopted a new terminology in line with the 1993 System of National Accounts (SNA). GNP (Gross National Product) has been changed to GNI (Gross National Income); GNP per capita to GNI per capita; private consumption to household final consumption expenditure; general government consumption to general government final consumption expenditure; gross domestic investment to gross capital formation.

Human development index (HDI). A composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, knowledge and a decent standard of living.

Illiteracy rate. The adult illiteracy rate comprises the percentage of people age 15 and above who cannot, with understanding, read and write a short, simple statement about their everyday life. This definition is based on the concept of functional literacy: a person's ability to use reading and writing skills effectively in the context of his or her society.

Infant mortality rate. The number of infants who die before reaching one year of age, expressed per 1,000 live births in a given year.

Informal economy. The informal economy is characterized by an exchange of goods and services which is not accurately recorded in government figures and accounting and which is generally untaxed.

Informal sector. The informal sector comprises private non-agricultural businesses which are household-operated and have no more than 5 paid employees (international definition established by the 15th International Conference of Labour Statisticians in 1993). In some countries, self-employed without family or temporary assistants are always included in the official definition of the informal sector.

Labour force. The economically active population: all people who supply labour for the production of goods and services during a specific period. It includes both the employed and the unemployed. Although national practices vary, in general the labour force includes the armed forces and first time job seekers but excludes homemakers and other unpaid caregivers and workers in the informal sector.

Labour force participation rate. The number of people who are classified as labour force for every 100 working age persons.

Labour market policy. Labour market policies and programmes are designed to facilitate labour adjustments and promote the efficient operation of labour markets. Active labour market programmes are interventions to encourage people to take positive action to improve their employment prospects. They include vocational training and retraining, employment services, job search assistance, organization of job fairs.

Low/middle/high income country. Economies are classified into three categories according to income. The GNP per capita cutoff levels are as follows: low income \$ 755 or less; middle income \$ 756–9,265; and high income \$9,266 or more. A further division at \$2,995 is made between lower-middle-income and upper-middle-income economies.

Moral hazard. Tendency for changes in behaviour under insurance that increase the risk of the contingencies occurring.

Net enrolment ratio. Number of enrolled pupils as percentage of the relevant age group.

Old-age dependency ratio. Residents above 65 years of age divided by residents between 15 and 64.

Pay-as-you-go (PAYG). A social security financial system under which current revenues (mostly from contributions such as payroll taxes) are used to cover current bene-

fits (e.g. mandatory old age pensions) 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 sickness benefit and 12 months for unemployment insurance that is more liable to fluctuations. These assets are supposed to cover periods of cyclical unemployment or negative wage growth.

The **PAYG cost rate** is the result from dividing the total expenditure by the total contributory earnings and indicates the contribution rate needed to balance income with expenditure.

Poverty gap index. The index reflects the depth of poverty, in that it depends on the distances of the poor below the poverty line as well as the number of poor. This index indicates the potential for eliminating poverty by targeting transfers to the poor. A drawback of this index is that it neglects inequality among the poor, it may not capture differences in the *severity* of poverty.

Poverty severity index. The index indicates how the level of inequality among the poor.

Replacement rate. Proportion of pre-retirement income available as an annuity during retirement.

Reserve ratio. An indicator of the level of reserves in a social security scheme compared with annual expenditures, a reserve ratio is determined by dividing the reserves at the beginning of the year by the expenditure in that year. The required reserve ratios for each social insurance branch are established at actuarial valuations (and may be specified in the legislation) and can be monitored at the intervening intervals.

Residualism. The residual welfare model is referred to as a social welfare model where market and/or family is first given responsibility for satisfying social needs and the state or society intervenes if and/or to the extent that market and/or family fails to do so.

Routine expenditures are monthly spending for salaries payment of civil servants, subsidies and other departments' routine spending costs; while **development expenditures** are used for financing government development projects and programmes.

Small and medium sized enterprises (SMEs). There is no definitive delineation between a small and medium sized business. As a general reference, small is often from 5 to 20 (10) employees, medium from 20 (10) up to 200. Businesses with fewer than 5 employees are usually called micro-enterprises. Establishments with over 100 employees are considered large enterprises.

Social assistance. A system of income support on the principle of need, as determined by a means test, which is financed from general revenue.

Social insurance. The technique of pooling risks and finances in autonomous funds as the basis for statutory contributory social security schemes for health and income protection.

Social protection. The set of policies and programmes 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 policies and procedures included in social protection involve five major kinds of activities: labour market policies and programmes, social insurance programmes, social assistance, micro and area based schemes and child protection.

Social safety nets. Sometimes the term is used for the whole set of programmes and policies which are here included under social protection. Others use it to refer only to welfare and targeted programmes for the poor. In many cases, these programmes are short-term in nature.

Social security. Social security is defined by the ILO 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,
- to provide them with health care, and
- to provide financial support to families with children.

Total dependency ratio. People aged 0–14 and above 65 as a percentage of those aged 15–64. This ratio is the sum of the youth and old-age dependency ratios.

Total fertility rate. The number of children who would be born to a woman if she were to live to the end of her childbearing years and bear children in accordance with current age-specific fertility rates.

Tripartite. The term used to describe equal participation and representation of governments and employers' and workers' organizations in bodies at the national and enterprise level.

Youth dependency ratio. The ratio of the population younger than age 15 to the population aged 15 to 64.

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