



International  
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# Developing Social Protection in Vanuatu

Consultation Paper

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Vanuatu



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## I. Introduction

### *Purpose of this paper*

The urgency of developing sound social protection policies in Vanuatu has been widely acknowledged. Strengthening and extending formal social protection will not only benefit formal sector workers and employers—who have been the beneficiaries of the existing social protection schemes, but also the wider population.

This paper is intended to aid the consultations with tripartite partners in order to develop a consensus as to the desired options for reform. Some of these options have been widely consulted on already. This paper presents reform options, along with a preliminary list of advantages and disadvantages of each option. The paper is deliberately brief, as the paper aims to draw out social partners' views and insights rather than social partners reactions to "academic analysis" of options.

During the consultation process other advantages and disadvantages might be identified, or more evidence as to the advantages or disadvantages may come to light. Through the consultation process each social partner should identify its priority areas for reform and also its preferred option or options for reform in each area.

### *The Social Protection Floors:*

### *Rights-based and life-cycle approach*

From a global legal perspective social security is recognized as a human right. The Universal Declaration of Human Rights (in article 22) and the International Covenant on Economic Social and Cultural Rights (in article 9) stated that everyone, as a member of society, has the right to social security.

The ILO suggests that social protection should be approached in its various dimensions and through various phases of the life cycle (prior to work, whilst working age, after retiring from work). The Social Protection Floors Recommendation, adopted by all member countries in 2012 (ILO Recommendation no 202), particularly emphasize the life cycle approach to social protection. Social protection floors are nationally defined sets of basic social security guarantees which secure protection aimed at preventing or alleviating poverty, vulnerability and social exclusion for the whole population. A Social Protection Floor entails (i) access to essential health care; (ii) basic income security for children, providing them with nutrition, education and care; (iii) basic income security for persons in active age who are unable to earn sufficient income, such as in cases of sickness, unemployment, maternity and disability; and (iv) basic income security for older persons.

### *Scope of this paper*

While acknowledging the Social Protection Floor as a condition that all countries must aim to achieve and that a comprehensive social protection provision for the whole population is a crucial part of countries' development, this paper focuses primarily on one aspect of social protection: income security for workers and their families. This focus is identified as one of the priority issues based a range of stakeholders consultations conducted prior to the writing of this policy paper, as well as in previous ILO's studies on social protection in Vanuatu (2006 and 2012) which recommended the improvement of existing workers' social security system and extending its coverage.

This paper concedes that it does not cover the most vulnerable population and other aspects of the SPF, namely those targeting people outside of employment are not less important and should be addressed in depth in a future exercise. Recommendations will include developing a comprehensive national social welfare policy. It is also acknowledged that the best income protection for workers is access to paid employment. Social protection reforms must be accompanied by a range of active labour market policies. Recommendations will include developing a national employment policy.

### *Fundamental Principles:*

Social protection is a public good. As such the costs of social protection should be publically shared. In general, a national social protection programme aims at triple cross-subsidization: from healthy to ill individuals, from high-

### *Solidarity of funding*

to low-income persons, and from single persons or small families to larger families (Cichon et al., 1999). Individual risks (e.g., pre-existing conditions, age and gender) should not influence the level of contributions, nor should they inevitably lead to exclusion from protection. The principles of solidarity in funding cash benefits schemes and pooling of risks, which are essential to allow the combination of resources to ensure a fairer and collective distribution of the costs and responsibilities of social protection.

When considering policy options the desirability of moving to a social insurance approach which respects the principles of solidarity of funding should therefore always be borne in mind.

### *Structure of the paper*

Chapter 1 provides introduction and the scope of the paper while chapter 2 describes Vanuatu's economic and social context and previous work on workers' income security. A table of reform options under priority areas that have previously been identified is presented in chapter 3. Advantages and disadvantages of reform options under each of these priority areas is presented in chapter 4. Chapter 5 contains a table to be completed by social partners through the consultation process, to help identify priority areas and preferred options for reform.

## II. Economic and social context & previous work on workers' income security

### *Workers in Vanuatu*

Vanuatu has a dualistic economy, with a large smallholder subsistence agricultural sector, sometimes referred to as the traditional economy, and a small monetised sector.

The 2009 census indicated that the labour force (all people over the age of 15 who are economically active or looking for work) contained about 100,000 people. Subsistence agriculture, unpaid family work and "subsistence + surplus" activities engages about 60% of the labour force. About 25% engage in the labour market as employees. The majority of employees are found in urban areas. Less than 14% of the rural labour force is engaged in paid employment, with a further 6% identifying as employers or self employed. In contrast 71.5% of the urban labour force is engaged in paid employment, with a further 13% identifying as employers or self employed.

The largest employer is the government, which employs about 6,000 people. Employment as domestic staff within households absorbs about 3000 employees. Some employees are engaged within the NGO/Aid sector but as an estimate about 15,000 employees are engaged within the private sector. Many private sector employers are small and have few employees.

### *Current worker's income security protections*

Regardless of whether employees are domestic workers, NGO workers, small-firm private sector workers or large-firm private sector workers they are all covered by the same laws. Public sector employees are covered by Vanuatu's general employment laws, but also, often, have more generous benefits provided pursuant to specific staff manuals that apply to public servants generally, or to specific public officers such as teachers, police and judicial staff members. The key worker's income security protections provided by law are:

**RETIREMENT & SURVIVOR'S SAVINGS:** The only worker's income security institution in Vanuatu is the Vanuatu National Provident Fund (VNPF). The VNPF manages a compulsory contributory savings scheme. Savings can be withdrawn on retirement, or on permanent incapacity to work. If a member dies his or her survivors are entitled to the savings. All employees who earn more than 3000 vatu per month must contribute, regardless of whether they are public sector, private sector or household employees. Currently the employee contributes 4% of his or her salary, with the employer contributing a further 4%.

**WORKPLACE ACCIDENT INSURANCE:** Compensation for workplace accidents and injuries is provided through private insurance policies. All private sector employers are required by law to maintain a worker's compensation insurance policy. The law does not specifically require this insurance to cover medical expenses or rehabilitation expenses, but instead provides for lump sum payments depending on the extent of permanent disability resulting from the workplace accident or injury. The law does not require public sector employees or household employees to be insured.

**TEMPORARY SICKNESS BENEFITS:** Private sector and household employees who are "in continuous employment" (who work more than 22 days per month) are also entitled to up to 21 days paid sick leave per year, to cover short term illness or incapacity due to accidents. This payment is provided directly by the employer. Public sector employees are also provided paid sick leave, although the length of sick leave may be longer.

**SEVERANCE ALLOWANCE:** Severance allowance acts as an unemployment benefit. This payment is provided directly by the employer. Private sector employees who are in continuous employment (defined as working 4 or more days per week) for more than 1 year are entitled to a severance allowance of 1 month's salary per year worked if they are terminated by the employer for any reason except for serious misconduct. If an employee resigns then he or she must have worked for 6 years in order to be entitled to a severance allowance payment. This payment is

also made on retirement at age 55 or if the employee is unable to continue to work due to illness or incapacity so provides an additional retirement benefit or sickness benefit. Public sector employees are also entitled to severance allowance, although the amount of payment may be higher.

**MATERNITY BENEFIT:** All female private sector and household employees are entitled to up to 12 weeks leave around the period of childbirth. The amount of payment whilst on leave is 66% of regular salary. A paid nursing allowance of 2 hours per day for 24 months is also provided. These payments are provided directly by the employer. Public sector employees are also entitled to maternity benefits, although the amount of payment may be higher.

### *The 2006 ILO study*

Between 2004 – 2006 the ILO conducted a major study of worker's income security options in 5 Pacific island countries, including Vanuatu. In 2006 it published *Social Security for All Men and Women - The feasibility of extending social security in Vanuatu* (the 2006 ILO study). This report considered both legal and informal social security protection measures in Vanuatu. It also conducted surveys to identify social security priorities. It produced a National Social Security Action Plan which focussed on 6 areas:

- Social Health Insurance;
- Social Insurance Pensions (retirement, permanent disability and survivors benefits);
- Unemployment Insurance;
- Social Assistance;
- Workers' Compensation; and
- Maternity Protection.

The report contained costings/feasibility studies of many of the options, and recommended moving to a state operated pooled social insurance scheme in the areas of social health insurance, social insurance pensions, unemployment insurance, workers' compensation and maternity protection. It also presented a draft Workers' Compensation Bill.

The 2006 ILO study recommended beginning with providing coverage to VNPF members only – with the possibility of extending schemes to workers who are not in paid employment in the future. This recommendation was made based on a combination of practicality and Vanuatu's level of economic development. The VNPF was identified as being the most likely implementing institution.

It also recommended developing broader social assistance, through the establishment of a Ministry of Social Welfare, and noted the need to develop active labour market policies to help generate jobs and get workers into paid employment.

### *The 2012 ILO study*

In 2012 the ILO conducted a follow up study. It broadly surveyed social protection programmes in a number of areas, including education and health.

Recommendations in this paper dealt with responding to the social protection floor more broadly. In relation to worker's income security it recommended:

- Better enforcement of existing laws;
- Moving to a pooled public fund for the payment of maternity benefits;
- Support for youth employment;
- Changes to worker's compensation and occupational safety and health laws;
- Support for community social protection initiatives;
- Institutional strengthening around social protection, including a review of feasibility studies in the 2006 ILO study.

## *Summary*

Previous studies indicate significant gaps and areas for improvement in income security for workers and social protection more broadly. A number of options have already been analysed in considerable detail. Reform options all focus on employees, rather than workers more broadly. This is something of a limitation, as about 75% of the workforce are not employees. However, this limitation has been seen as necessary due to practicality. The need to ground worker's income security law reforms in broader employment and social welfare policies is particularly important to ensure that social protection does not only benefit employees.

### III. TABLE OF REFORM OPTIONS IN PRIORITY AREAS

The table below summarises both current workers' income security benefits and options for reform that have been considered. Current benefits are in red and italics. The "ideal preferred option" under international standards is represented by the main right hand column. On the far right social assistance (probably cash transfers to low income families) is noted as an option also, although it is not analysed in any detail.

Unemployment	Employer pays direct lump sum severance allowance.	Employer pays compulsory insurance	Early withdrawal from compulsory retirement savings account , with employers and employers contributing to savings		Pooled fund from worker/employer contributions, lump sum	Pooled state managed fund from worker/employer contributions, periodic payment	Social assistance cash transfers to low income
Maternity	Employer pays direct percentage of regular salary		Early withdrawal from compulsory retirement savings account , with employers and employers contributing to savings		Pooled state managed fund from worker/employer contributions, lump sum	Pooled state managed fund from worker/employer contributions, periodic payment	
Elderly	Employer pays direct lump sum (severance allowance) on retirement		Lump sum from VNPF (compulsory retirement savings account)	VNPF periodic payment from account	Pooled state managed fund from worker/employer contributions, lump sum	Pooled state managed fund from worker/employer contributions, periodic payment	
Death/survivors	Employer pays direct lump sum of severance (unemployment) allowance to survivors if worker was eligible		Survivors entitled to lump sum from worker's VNPF account			Pooled state managed fund from worker/employer contributions, periodic payment	

Employment Injury	Total permanent disability/incapacity due to employment injury	Employer pays direct lump sum (severance allowance) on ceasing work due to incapacity	Private sector: employer compulsory insurance to pay lump sum benefit.	Early withdrawal from VNPF account (lump sum)	Pooled state managed fund from contributions (social insurance), lump sum benefit	Pooled fund from contributions (social insurance), periodic benefit payment			Social assistance cash transfers to low income
	Partial permanent disability due to employment injury		Private sector: employer compulsory insurance to pay lump sum benefit.						
	Temporary incapacity due to employment injury	Private sector: Employer pays maximum 21 days sick leave on full pay (under Employment Act)  Public Sector: sick leave length is longer							

Medical expenses – workplace injury		Common law requires medical expenses to be paid by employer	VNPF managed fund, contributing to in-country health care costs through a network of private providers	Pooled state managed fund, contributing to public health care costs through the public health fund with medical and rehabilitation expenses that are not covered by public health being funded		
Medical expenses – non work related (including maternity)	Worker pays small public health service fee (200 vatu per outpatient treatment). Out of pocket travel expenses can be considerable.		VNPF managed fund, contributing to in-country health care costs through a network of private providers	Pooled state managed fund, medical and rehabilitation expenses		



## IV. Advantages and disadvantages of reform options

In this section, after a brief background the advantages and disadvantages of each option that have been identified in previous consultations are listed. During consultations it would be helpful to get clear feedback on whether social partners think these advantages and disadvantages are correct and if any are missing. Going through advantages and disadvantages should help to social partners to choose their preferred reform option(s) in each area also.

### IV. 1. Unemployment insurance

#### International law framework

Part IV of the *Social Security (Minimum Standards) Convention 1952* (Convention 102) sets standards in relation to the provision of unemployment benefits for workers who experience 'suspension of earnings... due to inability to obtain suitable employment.' (Article 20) In brief it provides for a national (pooled) social security scheme, from which periodic payment are made. The later *Termination of Employment Convention 1982* (Convention 158) recognizes that not all states have national social security schemes and therefore provides that unemployment benefits can be provided by unemployment insurance or assistance, other forms of social assistance, a directly paid severance allowance, or a combination of those options (Article 12).

The Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) recognizes that active labour market policies to get job-seekers into work are a necessary complement to a benefit scheme.

Vanuatu is not bound by these Conventions, but they offer guidance as to ideal practice.

#### Current social protection coverage

In Vanuatu at the moment private employers pay 1 month's salary per year worked, and a pro rata payment for any incomplete years worked as a severance payment on termination. This payment is only available to employees who are "in continuous employment", which requires an employee to work 4 or more days per week. It is therefore not available to part time employees. Employees must also have worked for 1 year before becoming eligible for severance allowance, if it is the employer who initiates termination. If the employee resigns then he or she must have worked for 6 years before becoming eligible for severance allowance.

Severance is not available to employees who are terminated for serious misconduct, although if procedures for termination due to serious misconduct are not followed and the employee takes the matter to court then the employee does become entitled to a payment of up to 6 times the regular amount of severance allowance as a penalty to the employer.

#### Current reform proposals

Vanuatu is currently considering repealing the Employment Act [Cap 160] and replacing it with an Employment Relations Act. The draft Employment Relations Bill (ERB) contains the status quo, which is a lump sum severance paid by employers on termination in limited situations. It also contains provisions in respect of redundancy payments, which is also a lump sum paid by employers. It is currently not clear which option is preferred, or whether both severance and redundancy payment are intended to operate concurrently. It can be observed that this is currently a major area of tripartite disagreement in the ERB.

The Vanuatu National Provident Fund (VNPF) is also considering introducing unemployment insurance to members, with benefits to be provided from 2016. The details of this proposal are not finalised yet.

**Option 1:**  
*keep the  
status quo*

*Advantages*

1. There are no administration costs for the State
2. The system is not overly difficult for employers to administer

*Disadvantages*

1. Direct payment of severance allowance by employers is a significant cost which discourages employment growth
2. Direct payment of severance allowance by employers is a significant cost which encourages employers to use part time, short term and casual contracts to avoid severance allowance benefits
  - If an employee is part time, on a short term contract, or loses his or her job because of serious misconduct, then he or she is not entitled to severance allowance, even though he or she also may need an income buffer when he or she loses his job
3. If an employee loses his or her job because the employer has become bankrupt then the employee is unlikely to receive a severance allowance payment
4. The amount of payment is a lump sum, which may get spent very quickly so not act as an income buffer
5. The amount of payment is related to the length of employment, which is not necessarily related to the length of time a worker is unemployed before finding a job. This can work to the employee's advantage or disadvantage.
6. Compliance appears to be limited, particularly by smaller and less formal businesses

**Option 2:**  
*Employer  
pays  
compulsory  
unemployment  
insurance*

*Advantages*

1. A payment will be available to employees regardless of the financial position of the employer
2. Private insurance is not subject to political interference
3. It is low cost for the State to implement
4. It removes barriers to job growth and secure employment that the status quo (direct payment of severance allowance) creates.

*Disadvantages*

1. Compliance with private insurance for worker's compensation appears to be low so it can be assumed compulsory insurance in other areas will also have compliance issues
2. Private insurance is run as a business, which means that employers pay premiums based on a profit making model
3. In the absence of an insurance regulator private insurance companies could manipulate the market
4. Payments will be lump sum (which might not be a disadvantage in the Vanuatu context as it provides capital for investment, or relocation to outer islands)

**Option 3:**  
*Early  
withdrawal  
from  
compulsory  
retirement  
savings  
(VNPF)  
account*

*Advantages*

1. The VNPF scheme already exists, and could easily be extended to include early draw down of an amount
2. There is already provision for non-employees to make voluntary contributions to VNPF, so the approach could be extended to non-employees
3. Avoids most of the disadvantages of the status quo

*Disadvantages*

1. It provides a lump sum, rather than a periodic payment
2. It reduces the amount of money available for workers on retirement
3. It does not allow for cross-subsidisation of unemployment as a public good
  - a. Low income earners, who are most vulnerable will receive the lowest levels of payments

- b. In order to allow sufficient balances to build up to pay a meaningful unemployment payment very large contributions would be needed
- 4. Public confidence in VNPF may be low

**Option 4:**  
*Pooled state managed fund from worker /employer contributions, lump sum*

This option is different from current VNPF retirement funding, because rather than employees being paid from their own account, all contributions go to a pooled fund, from which a set level of benefit is then paid.

*Advantages*

1. Meets principles of solidarity of funding
2. Avoids most of the disadvantages of the status quo

*Disadvantages*

1. Complex to design and implement
2. Needs to be carefully costed
3. Public confidence in state managed funds may be low
4. It provides a lump sum, rather than a periodic payment

**Option 5:**  
*Pooled state managed fund from worker /employer contributions, periodic payment*

This option is the same as above, but payment is period, rather than a lump sum.

*Advantages*

1. Meets principles of solidarity of funding
2. Avoids most of the disadvantages of the status quo
3. Meets international principles about a periodic payment

*Disadvantages*

1. Complex to design and implement – more complex than providing a lump sum
2. Needs to be carefully costed (although the 2006 ILO study provides some costings)
3. Public confidence in state managed funds may be low
4. No lump sum, means that there is not a source of capital for an activity such as relocating to the islands and building a house

## **IV.2. Maternity benefit**

*International law framework*

Maternity protection is recognised as being a fundamental human right. The Convention on Elimination of Discrimination Against Women (CEDAW), which Vanuatu has ratified so is bound by, requires State parties to implement measures to ensure that women to be protected from dismissal or demotion on the grounds of pregnancy and maternity leave and to be provided with paid maternity leave benefits.

More detail on what maternity protection should consist of is found in ILO Conventions. The Maternity Protection Convention, 2000 (No. 183) is the most up-to-date international labour standard on maternity protection. Two earlier instruments - the Maternity Protection Convention, 1919 (No. 3), and the Maternity Protection Convention (Revised), 1952 (No. 103) - are still in force in certain countries, although these Conventions are no longer open to countries to ratify. As Vanuatu has not ratified Convention 183 it is not bound by these standards and can look to all of the Conventions for guidance as to what may be appropriate levels of benefits. The Conventions set standards in areas such as length of leave, the amount of benefit, who provides the benefit and paid nursing breaks. The Conventions are also accompanied by Recommendations that contain additional, non-mandatory, guidelines related to maternity benefits. The *Social Security (Minimum Standards) Convention 1952* (Convention 152) also

contains provisions on maternity benefits, in particular requiring that benefits are made as periodic payments, rather than as a lump sum.

### *Current social protection coverage*

In Vanuatu at the moment private sector employers are required to pay 66% of a woman's usual salary for a period of up to 12 weeks of maternity leave. This entitlement applies to all female employees, regardless of whether they are part time or full time. There is no minimum qualifying period women must work before becoming entitled to maternity benefits. Nor are maternity benefits capped after a certain number of children. Public sector employees are also entitled to 12 weeks leave, but permanent employees are paid 100% of usual salary whilst on maternity leave.

On return to work both private and public sector employees are entitled to 2 hours of paid nursing allowance per day for up to 24 months. Nursing allowance is paid at 100% of usual salary.

### *Current reform proposals*

Vanuatu is currently considering repealing the Employment Act [Cap 160] and replacing it with an Employment Relations Act. The draft Employment Relations Bill (ERB) does not change the status quo significantly, although levels of maternity benefits vary slightly.

The Vanuatu National Provident Fund (VNPF) is also considering introducing a maternity benefit to members. The details of this proposal are not finalised yet.

### *Option 1: keep the status quo*

#### *Advantages*

1. Some cover is provided, in law, to all female employees
2. There are no administration costs for the State
3. The system is not overly difficult for employers to administer
4. Employers directly control how they manage their maternity obligations, and can avoid maternity obligations in a number of ways

#### *Disadvantages*

1. Direct payment of maternity benefits by employers discourages the employment of women
2. Direct payment of maternity benefits may reduce security of employment for women through the increased use of casual labour and short term contracts
3. Direct payment of maternity benefits may contribute to wage disparities between men and women if employers take potential maternity benefits payments into account when setting direct wages
4. Compliance appears to be limited, particularly by smaller and less formal businesses
5. Whilst the provision of maternity benefits is a social good, the cost of maternity benefit is not shared, which may be seen as unfair
6. The majority of women workers are not employees and there is no scope for extending maternity benefits to workers who are not employees if maternity benefits are provided by direct payments by employers
7. Employees paid close to the minimum wage are provided a level of support on maternity which is lower than the minimum wage

### *Option 2: Early withdrawal*

#### *Advantages*

1. The VNPF scheme already exists, and could easily be extended to include early draw down of an amount
2. There is already provision for non-employees to make voluntary contributions to VNPF, so the approach could be extended to non-employees

from  
compulsory  
retirement  
savings  
(VNPF)  
account

3. Avoids most of the disadvantages of the status quo

*Disadvantages*

1. It provides a lump sum, rather than a periodic payment
2. It reduces the amount of money available for workers on retirement
3. It does not allow for cross-subsidisation of maternity as a public good
  - a. Low income earners, who are most vulnerable will receive the lowest levels of payments
  - b. In order to allow sufficient balances to build up to pay a meaningful maternity payment very large contributions would be needed
4. Public confidence in VNPF may be low

**Option 3:**  
Pooled state  
managed  
fund from  
worker  
/employer  
contributions,  
lump sum

This option is different from current VNPF retirement funding, because rather than employees being paid from their own account, all contributions go to a pooled fund, from which a set level of benefit is then paid.

*Advantages*

1. Avoids most of the disadvantages of the status quo
2. Meets principles of solidarity of funding – reduces discrimination against women caused by status quo
3. Easily extendable to non-employees (although extension is cost dependent)

*Disadvantages*

1. Complex to design and implement
2. Needs to be carefully costed (although there are some costings in the 2006 ILO study)
3. Public confidence in state managed funds may be low
4. It provides a lump sum, rather than a periodic payment

**Option 4:**  
Pooled state  
managed  
fund from  
worker  
/employer  
contributions,  
periodic  
payment

This option is the same as above, but payment is period, rather than a lump sum.

*Advantages*

1. Meets principles of solidarity of funding
2. Avoids most of the disadvantages of the status quo
3. Meets international principles about a periodic payment

*Disadvantages*

5. Complex to design and implement – more complex than providing a lump sum
6. Needs to be carefully costed (although the 2006 ILO study provides some costings)
7. Public confidence in state managed funds may be low

### IV.3. Elderly and survivors benefit

International  
law  
framework

Part V of the *Social Security (Minimum Standards) Convention 1952* (Convention 102) sets standards in relation to the provision of for workers who have retired. In brief it provides for a national (pooled) social security scheme, from which periodic payments are made. The *Invalidity, Old-Age and Survivors' Benefits Convention, 1967* (No. 128) makes similar provisions.

### *Current social protection coverage*

Under current law employees who have worked for more than one year in continuous employment are entitled to be paid severance allowance of 1 month's salary per year worked on retirement at age 55. It is not clear if severance allowance is payable to survivors in the event of an employee's death, but in practice some employers do pay it to survivors as part of settlement of wages. Severance allowance is analysed above as it is primarily an unemployment payment.

In addition to severance allowance all employees who earn more than 3000 vatu per month are required to be members of the Vanuatu National Provident Fund (VNPF). At the moment employers deduct 4% of the employee's salary and pay it into the employees VNPF account. Employers make a matching 4% contribution. Savings, plus any interest earned, can be withdrawn as a lump sum on retirement. If the employee dies then survivors are entitled to withdraw the savings.

### *Current reform proposals*

Vanuatu is currently considering repealing the Employment Act [Cap 160] and replacing it with an Employment Relations Act. It is unclear whether severance allowance will be retained under the Employment Relations Act.

The Vanuatu National Provident Fund (VNPF) is also considering converting individual savings to a pooled account from which a periodic pension will be paid. The details of this proposal are not finalised yet.

### *Option 1: keep the status quo*

#### *Advantages*

1. There is double cover, by both severance allowance and VNPF
2. The system is relatively simple to administer
3. The system is not overly difficult for employers to administer

#### *Disadvantages*

1. All the disadvantages of severance allowance, discussed in relation to unemployment benefits above, apply
2. There is no cross-subsidisation of benefits
  - o Low-income earners, receive a smaller retirement benefit
3. Payment is a lump sum, which may be used very quickly and does not help to sustain someone during a long retirement

### *Option 2: Periodic payment from VNPF account*

#### *Advantages*

1. The VNPF scheme already exists, and could easily be modified to provide periodic payments

#### *Disadvantages*

1. Most disadvantages of option 1 remain
2. Depending on the length of time periodic payments are provided for, they are likely to be very small, particularly for low income employees

### *Option 3: Pooled state managed fund from worker /employer contributions, lump sum*

This option is different from current VNPF retirement funding, because rather than employees being paid from their own account, all contributions go to a pooled fund, from which a set level of benefit is then paid.

#### *Advantages*

1. Avoids most of the disadvantages of the status quo
2. Meets principles of solidarity of funding

#### *Disadvantages*

1. Complex to design and implement
2. Needs to be carefully costed (although there are some costings in the 2006 ILO study)
3. Public confidence in state managed funds may be low
4. It provides a lump sum, rather than a periodic payment

**Option 4:**  
*Pooled state managed fund from worker /employer contributions, periodic payment*

This option is the same as above, but payment is period, rather than a lump sum.

*Advantages*

1. Meets principles of solidarity of funding
2. Avoids most of the disadvantages of the status quo
3. Meets international principles about a periodic payment

*Disadvantages*

1. Complex to design and implement – more complex than providing a lump sum
2. Needs to be carefully costed (although the 2006 ILO study provides some costings)
3. Public confidence in state managed funds may be low

#### **IV.4. Employment injury benefit**

*International law framework*

Specific stipulations concerning employment injury benefits are specified in ILO Convention No.102 regarding Social Security (Minimum Standard) and ILO Convention No. 121 regarding Employment Injury Benefits. Convention No. 121 provides more detailed principles of compensation for damages sustained from employment accidents and occupational diseases and generally gives higher standards than the minimum set in Convention 102.

*Current social protection coverage*

The existing Workers Compensation Act is based on employers' liability approach, requiring all employers to hold insurance policies with private insurers that cover their workers. Exemptions are made to the government, family businesses that employ family members, domestic workers and in the fishing industry, where payment is by share of the catch. The Act specifies benefits for death and total or partial incapacity for work. The Workmen's Compensation Act makes no reference to medical care, rehabilitation services or calculation of temporary incapacity benefit.

Employees who are unable to return to work due to injury or illness are also entitled to be paid severance allowance of 1 month's salary per year worked, and can withdraw their VNPF savings, so effectively have 3 different streams of payment on ceasing work.

The Employment Act [Cap 160] requires private sector employers to provide sick leave (up to 21 days on full pay) which also applies to sickness or injury caused by employment relations.

*Current reform proposals*

Vanuatu is currently considering repealing the Employment Act [Cap 160] and replacing it with an Employment Relations Act. It is proposed that sick leave will reduce to 10 days per year on full pay. It is not clear what will happen in respect of severance allowance.

The Vanuatu National Provident Fund (VNPF) is in the process of introducing medical expenses insurance for members. It is also considering introducing an unemployment injury benefit to members. The details of this proposal are not finalised yet.

**Option 1:**  
*keep the  
status quo*

Advantages

1. The system is easy to administer
2. No structural change required

Disadvantages

1. Many employers self-insure, with high risk of non-compliance, or extreme financial burden for employers in cases of massive accident
2. Exclusion of certain types of workers, such as government employees and domestic workers. This leads to lack of protection for the excluded workers and small pool of fund, making the scheme less cost effective
3. Commercial insurance incur higher cost compared to social insurance, due to smaller pool and high cost for marketing, commissions and profit.
4. No provision on medical care, rehabilitation and temporary incapacity-- These benefits need to be clarified in a comprehensive employment injury regulation to ensure coherence
5. Lump sum payment of death and permanent disability benefit. When a worker no longer able to work or a family lost the breadwinner, periodic payments provide better protection
6. No framework for tripartite oversight of the scheme.

**Option 2:**  
*Pooled state  
managed  
fund from  
contributions  
(social  
insurance),  
lump sum  
benefits*

This option addresses the weaknesses of employers' liability system. Social insurance is the internationally recommended system for employment injury benefit and many countries in the world have shifted from employers' liability to social insurance. The system is run by a national body, which can be an existing social security provider or a newly established one, who sets up an employment injury benefit fund.

Advantages

1. A social insurance scheme is more cost efficiency and fulfils solidarity principle
2. Provides tripartite oversight
3. The new scheme will allow the inclusion of other categories of workers (e.g. government workers, domestic workers) and other benefits (e.g. health and rehabilitation care)

Disadvantages

1. A new scheme design requires planning, technical capacity and extensive consultation with stakeholders
2. Requires careful actuarial valuation and technical experts
3. Requires public confidence in the administrator of the scheme

**Option 3:**  
*Pooled state  
managed  
fund from  
contributions,  
periodic  
payments*

This option is similar with the one above, with the scheme having same structure and administration system. However, this option requires cash benefits to be paid periodically throughout the period of the contingency. Periodic payment is seen as providing better protection to workers who are no longer able to work or family members who lost their breadwinner due to employment injury.

Advantages

1. Periodic payment guarantees protection throughout the contingency, as people under the circumstance are unlikely to provide annuity for themselves

Disadvantages

1. Long-term periodic payment system is more complicated and requires long-term planning and more complicated actuarial valuation



**Option 4:**  
*Pooled state  
managed  
fund, with  
options for  
lump sum or  
periodic pay*

This option has both the advantages and disadvantages of the previous 2 options, plus the advantage of providing beneficiaries with the freedom to choose the payment mechanism that may suit their needs.

## V. Consultation outcomes

A clear indication of social partners priorities will help to shape policy. To help with this the following questions should be considered.

### *Priority reform areas*

Ranking from very urgent to urgent to less urgent, how important is it to reform each area:

- Unemployment insurance
- Maternity benefits
- Retirement and survivors benefits
- Employment injury insurance (including coverage of medical costs)
- Other

### *Reform options*

In each area what are your favoured reform option(s). Any comments about why these are preferred or difficulties you may see in implementing them will be helpful also

- Unemployment insurance
- Maternity benefits
- Retirement and survivors benefits
- Employment injury insurance (including coverage of medical costs)
- Other