SP DISCUSSION PAPER NO. 0204

Options of Public Income Support for the Unemployed in the Philippines and Social Protection

Jude H. Esguerra, Makoto Ogawa, and Milan Vodopivec

April 2002

Social Protection
LABOR MARKETS, PENSIONS, SOCIAL ASSISTANCE
THE WORLD BANK

Options of Public Income Support for the Unemployed in the Philippines and Social Protection

Jude H. Esguerra, Makoto Ogawa, and Milan Vodopivec

April 2002

EMPLOYMENT POLICY PRIMER

Options of Public Income Support for the Unemployed in the Philippines

Jude H. Esguerra, Makoto Ogawa, and Milan Vodopivec

1. Introduction

Unemployed workers in the Philippines, as elsewhere, are struggling to make ends meet. If faced with the job loss, workers employed in the formal sector rely on severance pay. Despite their entitlement, it may sometimes be difficult for them to enforce the payment. Responding to more dramatic and uninsurable episodes of economic and environmental shocks, the government has also repeatedly introduced temporary loan assistance packages. But these workers are in the minority. Little protection is available to the worker in non-regular employment– and for the majority of workers, those working in the informal sector.

It is therefore not surprising that Filipino workers have relied greatly on informal modes of managing the unemployment risk: trying to prevent the risk by working longer hours or accepting lower pay; mitigating the risk by prior accumulation of savings; and coping with the risk by receiving private transfers, selling assets, withdrawing children from school, and – not just for a few of them – reducing consumption. Many of these mechanisms were costly, inefficient, and above all, not nearly adequate. Clearly it is an important purpose to assess how public policy can better assist Filipino workers dealing with the risk of unemployment.

The purpose of this paper is to explore possible ways to improve income support for the unemployed. Based on the analysis of several existing as well as potentially attractive income support programs, the paper outlines some of the desirable directions. These include selective expansion and improvement of the design of some of the existing programs (such as public works, particularly those that use labor intensively, and some types of livelihood programs), as well as the introduction of new programs, such as unemployment insurance

* The authors are: Jude H. Esguerra from the School of Economics at the University of the Philippines, Makoto Ogawa and Milan Vodopivec of the Social Protection Unit of the World Bank. This is a revised version of the paper, originally prepared for the WB-ILO-JMOL-PDOLE-JIL-ASEM seminar on "Labor Market Policies in the Philippines and Implications to East and Southeast Asia," Manila, March 1-2, 2001.The authors would like to thank the Philippines authorities for their hospitality and help during the field work.

savings accounts or comprehensive savings accounts, which would increase the coverage of workers and the range of contingencies covered. The study also finds that some other programs that are widely used in developed countries (unemployment assistance, for example) may be less appropriate for countries like the Philippines.

The paper is organized as follows. The next section lays out the comprehensive risk management framework that guides the analysis. Section 3 examines country-specific circumstances, to the extent that they are important determinants of the choice of the income support program, such as labor market institutions, characteristics of the unemployed, and perennial causes of unemployment and underemployment. Section 4 is the key analytical section. It describes alternative income support programs and discusses arguments in their favor, as well as their weakness. Section 5 concludes with a discussion of policy options.

2. Analytical Framework[1]

In this section, we present the conceptual issues in evaluating various income support programs available to workers – and the society as the whole – to deal with the risk of unemployment. We start with stating the objectives of income support systems. We then proceed by pointing out that public income support schemes for the unemployed are just a subset of risk management mechanisms, and that only by observing the system in its entirety enables one to objectively evaluate different alternatives. We conclude by listing two types of evaluation criteria of income support programs: performance evaluation criteria (stressing distributive and efficiency aspects), and design and implementation criteria (stressing country's specific conditions as factors for the selection of a program).

(a) Objectives of income support programs. From the standpoint of individuals, the primary purpose of such programs is a replacement of income due to a loss of a job. This purpose subsumes consumption smoothing, as well as poverty prevention. Moreover, maintaining and acquiring human capital, and countering psychological effects of unemployment are also important individual level objectives.

From the standpoint of the society, the objectives are wider and may include:

- promoting distributive justice (reducing income inequalities, helping the poor and long-term unemployed);

[1] This section draws from Vodopivec (2001).

- encouraging restructuring and reallocation of labor; and
- developing social infrastructure and creating capacity for self-help (empowering of communities).

(b) A general framework of risk management. It has to be emphasized that public income support programs are just a subset of risk management mechanisms available to the unemployed. In general, these mechanisms can be divided into three categories: (i) those that reduce the risk of unemployment or loss of livelihood (that is, reduce the probability of becoming unemployed); (ii) those that mitigate that risk (reduce the impact of a future unemployment spell if it happens); and (iii) those applied in response to the undesirable event – coping mechanisms. (See Holzmann and Jorgensen, 2000, for a comprehensive framework of social protection based on social risk management). Within all three categories, both informal and formal mechanisms are usually available, with formal ones further divided into market-based and public (see table 2.1).

Table 2.1: Income support systems for unemployed workers in the context of other mechanisms for managing risk*

Arrangement Strategies	Informal	Formal	
		Market Based	Public
Risk reduction	Less risky production. Migration. Proper feeding and weaning practices. Maintaining good health.	Training. Financial market literacy. Company-based and market-driven labor standards.	Sound macroeconomic policies. Public health policy. **Labor market policies** (including employment protection policies – **severance pay**, for example).
Risk mitigation **(a) Portfolio diversification**	Multiple jobs. Investment in human, physical and real assets. Investment in social capital (rituals, reciprocal gift-giving).	Investment in multiple financial assets. Microfinance schemes.	Multi-pillar pension systems. Asset transfers. Protection of property rights. Support for extending financial markets to the poor.
(b) Insurance	Marriage/family. Community arrangements. Sharecrop tenancy.	Old-age annuities. Disability, accident and other personal insurance. Crop, fire and other damage insurance.	**Unemployment insurance/assistance.** **Individual savings accounts.** Pensions (including **early retirement**), disability, and sickness insurance.
Risk coping	Selling of real assets. Borrowing from neighbors. Intra-community transfers/charity. Child labor. Dis-saving in human capital.	Sale of financial assets. Commercial loans.	Social assistance. General subsidies. **Active labor market programs (job-search assistance, training, employment subsidies, public works).** Social funds.

Source: Adapted from Holzmann and Jorgensen (2000).

*Major mechanisms used to manage the risk of unemployment are shown in bold.

The above framework makes clear not only that there are multiple mechanisms for dealing with the risk of unemployment. It also shows that when evaluating the effects of public income support programs or considering the introduction of new ones, there are complex links and interactions that have to be considered. For example, strengthening of a particular income support program for the unemployed may have numerous, far-reaching consequences, ranging from encouraging production in more risky industries, reducing the use of self-protection mechanisms of individuals (for example, intensity of job search, desire to take training, and incentives for saving), to the amount of private transfers they receive. But links are even more complicated. The financing of public income support programs requires taxes and/or contributions – and may thus negatively affect the overall job creation capacity of the economy. Therefore, increased use of a particular risk mitigation mechanism may worsen the effectiveness of other risk-reducing mechanisms – and may affect coping mechanisms as well.[2]

(c) Evaluation criteria. When a country is improving or introducing a particular program to respond to income loss, one can use two important sets of criteria (although they are interconnected, it is helpful to state them separately): performance criteria and design and implementation criteria.

One can distinguish four types of performance evaluation criteria:

- distributive criteria, relating to the coverage, the adequacy of support (as measured by replacement rates, consumption smoothing, and poverty reduction), and the redistribution of income;
- efficiency criteria (intensity of job-search effort, effects on post-unemployment wages, effects on equilibrium labor market outcomes, enhancing restructuring of enterprises and overall adjustment, effects on labor supply of other family members, encouragement of taking regular vs. informal jobs, and effects on output and growth);
- susceptibility to various types of economic shocks; and
- vulnerability to political interference during the design and execution of programs.

---

[2] For example, in a well-known study, Cox and Jimenez (1995) estimate that the introduction of UI in Philippines could displace a striking 91 percent of private transfers to the unemployed.

Design and implementation criteria. While the above criteria determine "generic" performance of various programs, country-specific circumstances determine how a certain program works in a particular country. These circumstances relate, for example, to the type of unemployment risk typically faced by a country, the degree of informality of the economy and other "initial conditions," and expected interactions of income support programs with other programs and policies.

To illustrate: in a country where certain regions are often affected by natural disasters, it is important to have income support programs in store which are flexible and can quickly be deployed in affected areas. Moreover, the presence of a large informal sector calls for stronger representation of programs accessible also for self-employed and other informal sector workers. Furthermore, when choosing a program, a country's *administrative capacity* has to be accounted for. For example, unemployment insurance/assistance requires that benefit recipients are monitored for their compliance to continuing eligibility rules, and unemployment assistance relies also on means and asset testing. The performance of such programs depends crucially on the administrative capacity to provide quality monitoring and testing. And interactions with other programs and policies are also important. For example, if unemployment insurance savings accounts are also meant to be an important supplement to old-age income support programs, incentives should be purposely inscribed in both programs to preclude scenarios where the unemployment insurance savings accounts are depleted in anticipation of forbearance and generosity on the part of the main leg of the old-age income support system.

Last but not least, *the ability of an economy to implement income redistribution* may also determine the choice of programs. In varying degrees, income support programs entail redistribution from the rich to the poor. Depending on the level of economic development, the ability of countries to support such programs varies a lot. Some countries are so poor that they can hardly afford any type of income support programs. On the other hand, many developed economies have instituted income support programs that allow for substantial income redistribution.

3. Institutional Background: Exploring Country-Specific Conditions

As emphasized above, country-specific circumstances determine in many important ways the performance of public income support programs and their interactions with other risk management mechanisms. This section is devoted to the exploration of such circumstances in the Philippines.

3.1 Regulations about employment and income stability

Regulations on hiring and dismissal. The Labor Code mandates a probation of six months; after that time, a worker should be considered a regular employee. The Code also stipulates "objective rules" for determining regular employment – it requires that employees who have been engaged in activities which are "usually necessary or desirable in the usual business or trade of the employer" are deemed regular workers. Moreover, in case of "labor-only contracting," workers are regarded as directly employed. The Secretary of Labor and Employment is empowered to issue regulations to restrict or prohibit the contracting out of labor to protect the rights of workers established under this Code. These rules tend to limit the mode through which small and medium industries can create jobs.

Regulations on dismissal require that the employer does not terminate the service of employees except for a just cause or when authorized by labor law. In case of redundancy, the worker is entitled to a separation pay of one month pay for every year of service. In the case of retrenchment to prevent losses, the entitlement is one-half month pay for every year of service (with a minimum of one month pay). The average severance pay during the crisis was around P10,000 (administrative sources). In the event of bankruptcy or liquidation of an employer's business, the workers shall enjoy first preference as regards their wages and other monetary claims. Such unpaid wages and monetary claims shall be paid in full before claims of the government and other creditors may be paid.

Regulation of working hours. The normal working hour shall not exceed 8 hours a day and 25 percent additional compensation should be paid for overtime work. Recently, the judiciary upheld the right of employers to reduce work hours in times of crises. A company suffering from financial losses is to undertake measures to reduce working days if such is justified by the financial conditions of the company. The company, however, is required to notify the employees and the Department of Labor and Employment (DOLE) in advance, and to submit a financial statement. Part-time work is increasingly being recognized as a reality – but the ambiguity of labor legislation regarding part-time work still exists. This ambiguity relates to the applicability of rules about job security, minimum wages, and overtime pay.

Minimum wages. Minimum wage rates for agricultural and non-agricultural workers are determined by the Regional Tripartite Wages and Productivity Board. The Regional Board should follow the guidelines prescribed by the National Wage and Productivity Commission and consider in its decisions, among others, regional consumer price indices and costs of living. The minimum wages may have significantly affected the wage setting, as they are used as entry wages – although only 74 percent of the inspected establishments complied with the regulations.

Implications for the choice of income support programs. The Philippine Labor Code favors indefinite, full-time labor contracts and protects regular employment. Although there has been no empirical analysis on its effects, international experiences suggests that its likely effects are (OECD, 1999):

- lower aggregate employment rate, particularly the employment rate among the youth,
- higher level of self-employment, and
- lower inflow into unemployment, but also longer average unemployment duration.

This traditional approach is to be contrasted with an alternative approach that emphasizes job creation and easier access to formal sector jobs among less privileged segments of the population. That approach requires greater labor market flexibility, as well as strengthening income replacement programs to provide protection for workers in their transition from one job to another.

3.2 Who are the unemployed?

Unemployment in the Philippines is higher than in other Asian countries. In the 1990s, the unemployment rate has been around 10 percent, and has increased during the Asian crisis (see table 3.1). Unemployment is even higher among young workers, particularly women (see table 3.2). Interestingly, the unemployment rate is highest in the National Capital Region. In 1998, at the height of the Asian Financial Crisis, 193,000 or 22.2 percent of unemployed had been unemployed for more than 10 weeks. The average duration of unemployment among those looking for work was 6.8 weeks. The majority of long-term unemployed (58.4 percent) were from Metro Manila and the areas closest to it.

Table 3.1: Summary labor market statistics, 1992-2000
(absolute numbers in million)

	1992	1993	1994	1995	1996	1997	1998	1999	2000
A. Employment									
TOTAL employment	23.8	24.4	25	25.7	27.1	27.9	28.0	29.0	28.4
a. Wage and salary workers	10.6	10.8	11.3	11.9	12.6	13.5	13.7	13.8	13.9
Public sector	1.9	1.9	1.9	2.0	2.1	2.1	2.2	2.2	
Private sector	8.8	8.9	9.4	9.8	10.6	11.3	11.5	12.0	
Private HH	na	na	na	na	na	1.4	1.6	1.6	
Establishment	na	na	na	na	na	9.7	9.7	10.2	
Family op. ac.	na	na	na	na	na	0.2	0.2	0.2	
b. Own account workers	9.5	9.7	9.8	10.0	10.3	10.4	10.5	10.2	10.2
Self-employed	8.7	9.0	9.0	9.1	9.3	9.3	9.5	9.4	
Employer	0.8	0.7	0.8	0.9	1.0	1.0	1.0	1.4	
c. Unpaid fam. memb.	3.7	3.9	3.9	3.8	4.2	4.0	3.8	3.8	3.3
Structure by sectors (in percent)									
Agriculture	45.3	45.7	45.1	43.4	42.8	40.8	39.2	38.9	37.1
Manufacturing	10.6	10.1	10.1	10.2	9.9	9.9	9.7	9.9	10.0
Other industries*	Na	5.5	5.7	5.9	6.4	6.8	6.7	6.33	6.23
Services**	Na	38.7	39.1	40.5	40.9	42.5	44.4	44.9	46.7
Number underemployed* **	4.9	5.3	5.4	5.1	5.7	6.1	6.1	6.1	5.9
Rate of underemploym.****	20.0	21.7	21.4	20.0	21.0	22.1	21.8	22.1	21.7
Rate of underempl. - men	25.0	23.5	23.4	21.8	23.0	24.0	24.0	25.1	
Rate of underempl. – women	17.0	18.4	18.0	16.9	17.7	18.8	18.0	17.6	
B. Unemployment									
Number of unemployed	2.6	2.5	2.6	2.7	2.5	2.6	3.1	3.1	3.5
Unemployment rate	9.9	9.3	9.5	9.5	8.6	8.7	10.1	9.8	11.2
Men	8.9	8.4	8.8	8.9	7.9	8.1	9.7	9.5	
Women	11.5	10.7	10.6	10.7	9.7	9.8	10.9	9.9	
C. Labor force									
Total labor force	26.3	26.9	27.7	28.4	29.7	30.3	31.1	32.1	31.8
Labor force participation Rate (%)	66.0	65.6	65.5	65.8	66.7	66.3	66.1	66.6	65.0
LFP rate for men	83.9	83.0	83.0	83.0	83.5	83.5	83.3	83.4	
LFP rate for women	48.5	48.4	48.2	48.5	49.8	49.3	49.2	48.5	
D. Working age population	39.8	41.0	42.2	43.2	44.6	45.8	47.0	48.2	49.0

Source: Yearbook of Labor Statistics, Bureau of Labor and Employment Statistics, Department of Labor and Employment, various issues.

*Other industries include mining and quarrying; construction and electricity, gas and water

Table 3.2: Unemployment and unemployment rate by age and sex, 1998

	Total		Male		Female	
Total	3,143	10.1	1,875	9.7	1,268	10.9
15-19 Years	768	22.8	440	20.6	327	26.5
20-24 Years	807	19.9	463	17.9	344	23.2
25-34 Years	708	9.3	436	8.9	272	10.2
35-44 Years	350	5.1	210	5.0	140	5.3
45-54 Years	244	5.0	156	5.4	88	4.5
55-64 Years	165	5.7	106	6.0	59	5.1
65 Years and over	106	7.5	64	7.3	39	7.2

Source: Labor Force Survey, 1998.

The peculiarity of developing countries like the Philippines is that unemployment is more common among non-poor workers, that is, members of more prosperous households are more than proportionally represented in the ranks of the unemployed. For example, in 1997, of the households whose heads were not employed only 12.1 percent were poor, in comparison to a 25 percent poverty incidence in general (Balisacan, 1999). Moreover, although the same group of households whose heads were not employed represented 12.7 percent of the total population, its contribution to the total number of poor persons was only 6.1 percent. It therefore seems that given the country's present level of economic development, members of less prosperous households cannot afford to stay unemployed for a prolonged period of time. They try to cushion the loss of earnings by opting for low productivity jobs instead of not working at all while they continue to pursue more adequate job opportunities.

The above conclusions are confirmed also by labor market trends during the 1998 economic crisis. The labor market shock affected richer households more severely both in terms of losses of jobs and reduced earnings (in contrast, the drought brought by El Niño was regressive – that is, it affected more of the relatively poorer, peasant households – see World Bank, 2000).

Underemployment. A characteristic of Philippine poverty is that the most deprived groups are found among the ranks of the underemployed (that is, among the employed persons who desire to work additional hours in their present or other job, or to have a new job with longer hours). These are mostly unskilled workers, whose pay is often insufficient for their needs and who therefore search for additional sources of income. Self-employed subsistence farmers and fishers, seasonal workers, and informal-sector workers – regarded as among the poorest – are among them. In contrast to unemployment, underemployment is much more evenly distributed across the different areas. The underemployment rate is lowest in Metro Manila and its neighboring areas (BLES, 1998). Results by Alba and Esguerra (1999) suggest that a worker on average would prefer to be fully employed until his unemployment income exceeds P9,000, a wage way above the poverty line and above average incomes in the formal sector, before opting for unemployment as a preferred mode of labor force participation.

The size of the informal sector. By several accounts, the informal sector is large in the Philippines. In 1998, more than half – 51 percent – of the Filipino workers worked in the informal sector (defined as own account workers and unpaid family members – see table 3.1).

Wage earners employed in private establishments comprised only 35 percent of the total number of workers (42 percent if wage earners in the public sector are accounted for). Moreover, 80 percent of workers employed in private establishments were employed in firms with less than ten workers. And among 2 million workers in private establishments with ten workers or more, at least 20 percent are in what the labor department calls non-regular employment. Moreover, in 1997 only a little over one-fourth, or 525 thousand workers, were covered by collective bargaining agreements.

Implications for program choice and design. The above facts have important implications for both the efficiency and equity aspects of income support programs. First, a large informal sector underscores the importance of programs accessible also for non-regular workers. Second, the informal sector offers an important opportunity for exit from unemployment, the exit that should not be blocked by the introduction of income support schemes. Third, equity considerations suggest that the underemployed – not only the unemployed – should be regarded as an important potential client group for income support programs. Fourth, providing income support to the families of the long-term unemployed may, paradoxically, increase inequity because it is likely to exclude those unemployed who cannot "afford" to wait for "suitable" employment opportunities, and who are even poorer than the long-term unemployed. And fifth, the widespread nature of poverty suggests that programs should avoid spreading resources too thinly and, therefore, should target specific groups. To achieve this goal, self-selection via a low wage should be an important method of the selection of program participants.

3.3. Inter-household transfers

In the Philippines, income transfers between families are very significant. Cox and Jimenez (1995) showed that in 1988, transfers generally flowed from rich to poor households and they accounted for 12 percent of the overall income of households. Urban households in the lowest quintile benefited most – their income increased by 80 percent as a result of the transfers. Absent these private transfers, income poverty rates would have been a third higher. According to our calculations based on the 1997 Family Incomes and Expenditures Survey (FIES), total income transferred in 1997 has decreased to 9 percent of the overall income of household, compared to 12 percent in 1988. Still, for households receiving such transfers in 1997, which was 42 percent of the population, the average amount received was large compared to any public program and ranged between a P12,000 average for the receiving households in the ARMM region and P46,000 for those in Metro Manila (table 3.3). As a proportion of household incomes of recipient households, the transfers amounted to an average of more than 20 percent of income for recipients in 11 of the 16 administrative regions of the country (not shown in table).

Table 3.3: Dimensions of inter-household income transfers

Region	Percentage of families receiving assistance from other households (scope)	Average amount (P) received by individual households that receive assistance from other households (intensity)	Total amount (P) of assistance given by other households (per year, in thousand pesos) on the basis of	
			Domestic income sources	Foreign income sources
1 Ilocos Region	63.59	25,054	2,245,328	10,149,031
2 Cagayan Valley	34.49	18,983	1,152,499	2,691,706
3 Central Luzon	52.98	27,341	4,119,138	16,682,019
4 Southern Luzon	44.13	29,602	4,472,120	20,851,415
5 Bicol Region	49.31	12,390	2,979,835	2,939,935
6 Western Visayas	52.10	20,928	4,223,897	9,404,539
7 Central Visayas	41.50	16,865	2,530,020	4,792,162
8 Eastern Visayas	43.70	13,531	2,132,132	2,310,749
9 Western Mindanao	27.58	19,890	726,045	2,327,907
10 Northern Mindanao	30.81	13,880	837,221	1,421,416
11 Southern Mindanao	36.06	15,732	1,371,413	3,680,199
12 Central Mindanao	26.08	15,843	564,242	1,293,027
13 NCR	49.19	46,194	8,834,560	36,426,395
14 CAR	32.56	29,643	539,328	1,961,112
15 ARMM	13.88	11,638	124,197	451,086
16 CARAGA	40.35	14,463	1,103,088	1,259,110
PHILIPPINES	43.94		37,995,064	118,641,809

Source: Own computations based on 1997 Filipino Income and Expenditures Survey (FIES).

The scope and intensity of inter-household transfers was uneven across regions, and does not seem to vary systematically with the degree of urbanization of the region. The scope of transfers of Metro Manila and backward Bicol region, for instance, is the same at 49 percent of households. Meanwhile, the scope of transfers in the Ilocos region, which is predominantly agricultural, is surprisingly the highest at 63 percent. Table 3.3 shows that in 1997, the scope and intensity of inter-household transfers were uneven across regions, with more redistribution occurring in urban areas. Moreover, the table shows that transfers from abroad made up three-fourths of total transfers, up from two-thirds in 1988. The Philippines therefore have a "diversified" portfolio of inter-household transfers, one with the potential for avoiding the usual covariance of risk that comes with informal modes of coping and insurance.

Using detailed data on gifts, loans, and asset sales, Fafchamps and Lund (1997) investigate how rural Filipino households deal with income and expenditure shocks. They find that transfers are triggered by the contingency of a shock (such as loss of work or failure of crop), and they claim that the system is best described as a system of quasi-credit. In this system, mutual insurance is provided by tightly knit networks of friends and relatives through flexible, zero-interest informal loans, combined with pure transfers. Mutual insurance does not appear to take place at the village level; rather, households receive help primarily through networks of friends and relatives. This highlights the possibility that even the familiarity provided by living closely together in the same areamay not suffice to provide reliable modes of monitoring need and ability and willingness to reciprocate in the future. Loans are taken for consumption purposes. Most borrowers and lenders have exchanged loans before, and many have switched roles in the transaction. Indeed, having provided transfers to other households entitles the provider to call on the support of the borrower once (s)he, in turn, requires support. Few loans require collateral or have a set repayment schedule, and loan contracts are rarely interlinked with other contracts. The majority of informal loans, 80 percent, carry no interest charge.

Other findings of Fafchamps and Lund (1997) reject models of risk sharing that portray informal lending as an efficient mix of perfectly enforceable credit and insurance contracts. Such gifts and loans on average cover the expenses associated with funerals and with the loss of earnings resulting from unemployment of the household head or his spouse.

According to econometric tests, full insurance cannot be rejected at the one percent level for funerals and for unemployment of the head or spouse, but it can be rejected for all other categories of risk such as those associated with acute sickness and mild sickness.[3]

Fafchamps and Lund (1997) also find that poor households, whose capacity to reciprocate is limited by their poor human capital endowments, may not receive as much support as they may need. This corroborates the finding of Cox and Jimenez (1995) that higher transfers accrue to households whose members have a higher education and correspondingly higher expected incomes in the long-term. Other studies have shown that the ability of the poor to maintain their consumption in the face of crisis-induced income shocks is more limited compared to the non-poor. For example, the World Bank (2000) finds that during the last economic crisis, the reduction in consumption of the poor was relatively larger than that of the non-poor (in technical terms, the mean consumption-to-income shock ratio of income-poor and non-poor was 94 and 78 percent respectively). This difference may partly also reflect the reduced ability of rural households to insure against risk, because private income transfers suffered by the covariance of shock created by El Niño drought.

In the above-mentioned study, Cox and Jimenez (1995) also simulate the effects of the introduction of unemployment insurance in the Philippines, assuming a 50 percent replacement rate. Their simulations show that the reduction of private transfers would erode 91 percent of the income received from the public program, yielding very little net gain.

Implications for program choice and design. The above findings have diverse and far-reaching consequences. First, regional unevenness of the size of transfers suggests that some regions are more in need of supplementary public programs such as labor-based infrastructure projects than others. Second, because of large transfers from abroad, private transfers are less susceptible to domestic macro shocks – but transfers from domestic sources are vulnerable to covariant risks. Third, although they are sizeable, private transfers offer only limited insurance against income shocks, particularly to the poor. And fourth, simple analyses that do not account for private transfer responses to the expansion or introduction of public income support programs exaggerate the effectiveness of public programs. Evidence

[3] To improve health insurance, the information gathered by *barangay* health workers should be used for selecting, enrolling and subsidizing the premiums of vulnerable individuals and families to the government's National Health Insurance Program.

suggests that these responses would consist of sharp cutbacks in private transfers, particularly for programs where the likely main beneficiaries are the non-poor, whose transfers are more responsive to income shocks.

3.4 The ability of individuals to self-protect[4]

Formal and informal strategies for self-protection are available only for high-income workers, but are inadequate for most sectors of the rural poor. Recent household income and expenditure surveys show that despite informal modes of insurance, the poor absorb a great portion of income shock through reduced consumption. Compared to richer households, a greater number of the poor reduced the household's food intake, took children out of school, and increased working hours to the possible detriment of childcare by homemakers (see table 3.4). Local shocks (for example, pestilence) frequently result in the exhaustion of savings set aside for consumption smoothing, and – if they are covariant – in the reduction of the ability of households to provide support to others.

Table 3.4 Household Responses during the Asian Financial Crisis

Income Decile (1997 FIES)	Total HHs Responding	Percent of HH Responding to Crisis by					
		Changing Eating Pattern	Taking Children Out of School	Migrating to city or other countries	Receiving assistance from friends/ relatives	Receiving assistance from gov't	Increasing working hours
Poorest	2,256	56.7	12.4	7.8	16.5	10.7	37.5
2	2,223	52.3	9.3	5.4	17.1	8.8	36.8
3	2,211	50.7	7.3	5.4	16.3	8.4	33.6
4	2,206	51.0	8.7	5.2	17.0	6.8	33.1
5	2,180	47.8	7.1	4.5	17.2	5.9	29.4
6	2,155	48.3	5.6	3.8	16.4	5.7	27.0
7	2,138	47.0	5.0	3.7	15.0	4.5	26.1
8	2,125	44.1	3.5	3.4	12.5	2.9	22.3
9	2,097	41.4	3.2	3.1	13.8	3.9	23.1
Richest	2,011	33.3	1.2	3.5	12.0	2.6	18.2
Total	21,602	47.5	6.4	4.6	15.4	6.1	28.9

Source: Panel data constructed from the *1997 Family Income and Expenditures Survey* and the *1998 Annual Poverty Indicator Survey*.

Companies among the top 5,000 corporations frequently have private retirement, education, accident insurance, and/or life plans for their workers. These policies have cash surrender values and it is also routine for insurance firms to offer policy loans using the

[4] Self-protection refers to individual strategies for both (i) smoothing consumption in the face of income shocks, and (ii) reducing the probability of prolonged unemployment and underemployment.

premium as collateral. Of the 419 collective bargaining agreements that were forged in 1997, 128 or 30 percent contained provisions for life insurance of workers. Assuming that the same proportion applies also to workers, then only around 157 thousand of workers (of 525 thousand workers covered by the agreements, and of the total of 9.6 million workers employed in private establishments), had life insurance policies in 1997. The records of the Insurance Commission show that by 1998 more than five billion pesos of the total accumulated assets of the life insurance industry was in the form of policy loans by individual policyholders. Non-life insurance plans are more common.

Workers in the formal sector have access to consumer credit, although this access is highly uneven. Typically, workers with incomes above the eighth decile (with minimum annual incomes in the vicinity of P156,000) have some access to cash advances and credit of up to P25,000 at the least from credit card companies. In Metro Manila, for instance, close to 39 percent of households had income levels between P121,000 and P246,000, income levels which span the eighth and ninth income deciles (1997 FIES). This figure is similarly high for the two other regions in the vicinity of Metro Manila – Central Luzon and Southern Tagalog – at 31 and 24 percent, respectively. However, outside of these regions, those workers who may be eligible to consumer credit mostly account for below 10 to 15 percent. These magnitudes are also indicative of the relative adequacy of savings that poor households are capable of making.

For poorer workers in the urban areas, pawnshops are a means to generate cash on the basis of assets they may have accumulated. In 1993 there were 3,032 pawnshops (an average of two for every municipality) in the Philippines with assets of P5.2 billion. Pawnshops offer low transaction costs, rapid loan processing (15 minutes) and average loan amounts of P1,000 at interest rates between 4 and 5 percent per month.

Among poorer workers in rural areas, self-protection takes less institutionalized modes than those described above. It is usually assumed that temporary jobs in the informal sector or in non-farm rural activities serve as easy modes of coping. Labor productivity in these activities, however, is very low except in areas very close to Metro Manila and the other urban centers. Labor productivity in the informal sectors in Ilocos region, Cagayan Valley, Bicol region, Eastern Visayas, Western Mindanao, ARMM and Central Mindanao is not even half of the official poverty threshold of 70,000 pesos (1998 Yearbook of Labor

Statistics, table 9.3). Three members of the household will have to be working full time for income in the informal sector to lift households above the poverty line.

According to the Agricultural Credit Policy Council, in 1997 the majority of the country's 4.6 million small farmers were not able to obtain agricultural loans from banks and other lending institutions. Only about 1.84 million small farmers (about 40 percent of the total population) were able to secure loans from these formal conduits of credit. Financial institutions, including government ones, are notoriously reluctant to lend to the poor for consumption purposes. The poor must then turn to each other for support when hit by shocks. The preponderance of inter-household transfers and zero-interest reciprocal loans are of this nature (see above).

Even without formal insurance markets in the rural areas, there are modes of self-protection available to small farmers. One important mechanism is share-tenancy. Tenants can borrow from their landlords using their share in farm produce as collateral. Beyond being a credit channel, and in contrast to the leasing or direct ownership of land by small independent farmers, this arrangement reduces the magnitude of the income loss to the farming household if there is crop failure. It is akin to the limited liability of shareholders of corporations. Due to their lower ability to absorb income shocks, this option is preferred by poorer farmers. Another mechanism of informal insurance used by small farmers is keeping farm animals or excess grain supplies. According to Binswanger and Rozensweig (1992), "investment portfolios of small farmers reflect their difficulties in smoothing consumption in the face of high risks."

The household as the locus of coping. The household, rather than just the individual, is the locus of distress and response to underemployment and unemployment. For example, during the recent crisis, industries with predominantly male employment (agriculture, manufacturing, and construction) were more adversely affected (Table 3.5), and as a result, male unemployment deteriorated much more considerably than female unemployment. This triggered the entry into the labor market by secondary income earners – particularly urban women below the age of 54 and young urban males (Table 3.6). It is noteworthy that the rise in labor force participation by young women and men during the crisis coincided with data showing significant declines in high school enrollment rates. While school enrollment was growing by more than 2 percent during the good years, the school year 1998-99 saw a decline in the number of high school enrollees by as much as 7.68 percent for females and 6.63 percent for males.

Table 3.5 Structure of Employment by Major Industry Group and Sex
(October figures, in percent)

	1987	1989	1991	1993	1995	1996	1997	1998	1999
A. WOMEN									
Agriculture, Fishery and Forestry	32.7	30.9	30.1	32.7	31.1	30.3	28.4	27.3	26.9
Mining and Quarrying	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Manufacturing	12.6	13.6	13.3	12.6	12.7	12.0	12.1	11.4	12.0
Elec., Gas and Water	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Construction	0.2	0.2	0.3	0.2	0.2	0.2	0.3	0.3	0.2
Wholesale and Retail Trade	24.7	25.2	25.7	25.1	26.0	26.1	26.1	26.6	26.7
Transportation Storage and Communication	0.7	0.7	0.6	0.7	0.7	0.8	0.9	1.0	1.0
Financing. Insurance Real estate and Business Services	1.9	1.9	2.0	2.2	2.3	2.6	2.7	2.7	2.8
Community, Social and Personal Services	27.0	27.1	27.7	26.2	26.6	27.8	29.3	30.5	30.1
B. MEN									
Agriculture, Fishery and Forestry	56.4	53.2	54.0	53.5	51.7	48.5	47.6	47.5	46.7
Mining and Quarrying	1.0	1.0	0.9	0.8	0.5	0.6	0.6	0.6	0.5
Manufacturing	8.4	8.8	8.8	8.5	8.4	8.9	8.5	8.4	8.1
Elec., Gas and Water	0.5	0.5	0.6	0.6	0.5	0.6	0.7	0.7	0.7
Construction	5.6	6.4	7.0	7.0	7.5	9.0	9.2	8.4	8.3
Wholesale and Retail Trade	7.5	7.7	7.0	7.6	7.9	8.2	8.6	8.6	9.3
Transportation Storage and Communication	6.8	7.5	7.5	8.4	8.8	9.1	9.6	10.1	10.6
Financing, Insurance Real estate and Business Services	1.8	1.8	1.9	1.9	2.1	2.4	2.3	2.3	2.3
Community, Social and Personal Services	12.0	13.1	12.3	11.8	12.5	12.7	12.8	13.6	13.7

Source: Labor Force Surveys, National Statistics Office

Table 3.6: Labor force participation rate by age group
Urban and rural, by sex and age group

	FEMALE				MALE			
URBAN	1996	1997	1998	1999	1996	1997	1998	1999
All ages	48.62	49.24	50.07	50.58	78.46	78.22	78.77	77.90
15-19	27.47	26.67	27.95	26.80	33.92	33.56	35.83	33.89
20-24	53.99	54.04	56.31	57.32	77.76	77.26	77.81	76.92
25-34	55.04	56.00	56.79	59.22	96.51	96.22	96.48	96.15
35-44	58.44	61.57	61.82	60.99	98.54	98.06	98.48	97.37
45-54	59.25	60.12	60.70	61.25	95.05	95.82	95.20	95.23
55-64	48.89	49.16	49.10	49.67	80.61	80.17	80.73	81.02
65 over	22.25	23.92	24.72	24.77	42.88	43.44	42.47	39.64
RURAL	1996	1997	1998	1999	1996	1997	1998	1999
All ages	49.31	48.61	48.49	49.30	86.44	86.08	86.56	85.22
15-19	29.91	26.51	26.65	24.72	57.61	55.12	56.92	54.08
20-24	45.64	43.25	44.78	46.89	87.29	86.97	86.53	85.11
25-34	50.06	49.86	49.78	48.68	97.84	97.70	97.88	97.20
35-44	58.36	60.59	58.80	59.98	99.06	99.29	99.27	98.97
45-54	65.20	63.09	63.33	66.45	98.31	98.19	98.65	98.13
55-64	58.75	58.96	58.74	60.91	92.47	93.10	94.23	93.61
65 over	34.91	34.28	33.85	34.37	67.14	67.88	69.55	65.63
All ages	49.0	48.90	49.30	50.0	82.70	82.40	82.90	81.80

Source: Various Labor Force Surveys, National Statistics Office

Implications for project choice and design. Financial and insurance markets imperfections leave farmers – particularly poor ones – vulnerable to income shocks. Covariance of risk and moral hazard problems make the establishment of credit and insurance programs particularly difficult in rural areas, and the poor experience of such schemes is testimony to this difficulty (Hazell et al, 1986).

To improve farmers' ability to smooth consumption, other means of consumption smoothing are required in addition to savings programs (such as replications of the Grameen Bank experience) and various publicly supported livelihood programs. Public employment schemes are an obvious alternative, particularly in remote areas where private modes of self-protection are the most restricted due to the low productivity of non-farm employment.

Because mobilizing secondary income earners of a household entails taking youths out of school and reducing childcare, it imposes large social costs. To reduce incentives of the recourse to such negative coping mechanisms, income support programs could be narrowly targeted to families with members who were laid off from work and have children who may be at risk of being kept out of school due to greater care-giving or income-earning assignments. The support can be targeted not necessarily just to the individuals who become unemployed but also towards the vulnerable family members of the unemployed in the form of schooling subsidies, for example.

3.5 The nature of shocks

Apart from the idiosyncratic risk of unemployment resulting from the ongoing, regular process of labor reallocation in the economy (when an individual's probability to become unemployed is unrelated to the probability of others), in the Philippines there are also other significant sources of unemployment shocks.

Geography and climate. In the past decade, geography and climate have increasingly caused significant employment and income insecurity. The decline in agricultural production and employment creation that coincided with the Asian financial crisis was caused by the drought brought by the El Niño phenomenon. El Niño is widely expected to be a periodic occurrence, exposing large segments of the rural population to income insecurity. For example, among those rendered thoroughly defenseless by the recent El Niño drought are small farmers in the mono-crop areas of the coconut sector (note that coconut is grown on 3 million hectares or one-fourth of farmland in the Philippines). Otherwise healthy coconut trees have been known to become unproductive for up to three years. Another significant source of job and income insecurity is the high frequency of typhoons, which is a staple for a country that is in the monsoon belt.

Macroeconomic volatility. From the Philippines' perspective, there was nothing extraordinary about the Asian financial crisis. Unlike the East and Southeast Asian countries that experienced decades of growth prior to 1997, episodes of economic volatility resulting in recessions have visited the Philippines with a frequency more akin to the experience of Latin American countries. An economic crisis similar in depth and consequence to the crisis in Indonesia today took place from 1985 to 1986. A recession also happened from 1991 to 1992 whose effect on workers was of similar magnitude to the most recent economic slowdown. These cycles of economic ups and downs coincide with the levels of foreign exchange available for the purchase of raw material, machinery, and intermediate goods.

It is also believed that in the past decade, economic uncertainty has increased with the liberalization of the trade in commodities, particularly with the accession of the Philippines to the terms and conditions of the Uruguay round of the GATT.[5] The reduction of protection of industry and, to a lesser extent, of agriculture has generated anticipations of retrenchment in segments of industries with low productivity.[6] International competition arising from this new arrangement dictates greater labor flexibility, weakening the traditional permanent relationship with employees.

A further source of macroeconomic instability is capital account liberalization and exchange rate misalignment. After the deregulation of the capital account in 1992, the appreciation of the exchange rate created problems for exporters and import-competing industries (for instance, see de Dios et al, 1997). In contrast, the Asian financial crisis and recent political crisis resulted in an under-valuation of the peso. And as evidenced in recent decades, political uncertainty is also a major factor of macro-destabilization.

---

[5] The first phase of the tariff reform program was implemented from 1981 to 1985; it brought tariffs down from ranges of 100 percent to within 50 percent. The import liberalization program of 1986 to 1988 sought to reduce the number of import-restricted items. From 1991 to 1995 most tariff levels were narrowed down to mostly within the 30 percent range. Finally the ongoing tariff reform program, which commenced in 1996, aims at further reducing tariffs down to the range of between three to ten percent by the end of the year 2000 (excluding some agricultural products like sugar, rice and corn).

[6] Beginning in the mid-90s major new programs of the Department of Labor and Employment were directed at workers who, it was expected, were going to be affected by the GATT.

Implications for program choice and design. If shocks are regional or covariant, individuals, households or communities cannot take effective protective measures. Public systems – through the ability to pool resources across larger groups – are called for. The existence of natural calamities speaks in favor of a flexible program of public works.

3.6 The maturity of the financial market

Presently, the mitigation of risk through the financial market in areas like financial asset accumulation, access to credit for production and consumption purposes, and crop insurance, is very limited. For example, 40 percent of the 629,000 families living in poverty and engaged in entrepreneurial activities could not avail themselves of credit (according to 1992 data of the National Statistics Coordination Board). Moreover, because rural financial markets are segmented and highly incomplete, farmers resort to costly informal substitutes of precautionary saving such as storing assets by accumulation of farm animals, and distress sales of productive assets.

The public sector has a facilitating role for improving the access of informal workers to financial markets. For example, the Department of Social Welfare and Development, through its program Self-Employment Assistance, does not only provide incentive for increased spread of group savings institutions, it also helps groups and individuals "graduate" from being primarily beneficiaries of grants into entities capable of tapping the formal financial system. Government financial institutions, such as the Philippine Credit and Finance Corporation and the Land Bank, also encourage the formation of credit cooperatives and groups. However, there should be more scope for the private sector, market-based provision of insurance, especially as the formal sector grows.

Implications for program choice and design. As the country's financial system deepens and becomes more spatially integrated, the recourse to market-based risk mitigation mechanisms will gradually increase, which may go hand-in-hand with a reduction of the use of informal risk management mechanisms (such as private transfers). An important inducement to such development may be the promotion of provident funds created by firms for their employees, the possibility already being offered by private banking and insurance companies.

3.7 Public forced savings mechanisms

Employees in the private sector are covered under three mandatory social security systems (SSS, EC, and Pag-IBIG). The characteristic of the Philippine system is that these institutions have a loan function (see box 3.1).

Box 3.1: Loans based on savings funds existing in the Philippines

(a) Policy loans from private life and non-life insurance companies. As part of benefit packages negotiated in collective bargaining agreements, it is increasingly becoming common for firms to purchase for their employees pre-need financial products from commercial banks and pre-need firms. Thirty percent of collective bargaining agreements forged in 1997 contained provisions for the life insurance of workers and 68 percent contained provisions for retirement provident funds. Employers may opt to purchase these pre-need plans to comply with the requirements of the retirement law (Republic Act 7641). Workers are able to borrow from these individual pre-need and retirement accounts after the balance exceeds a certain threshold.

(b) Multi-Purpose Loan Program (Home Development Mutual Fund – Pag-IBIG). The Pag-IBIG Fund is a mandatory contributory fund mainly used for housing finance purposes (see text). Under its multi-purpose loan program, a member may avail of a subsidized loan equivalent to 60 percent of his total savings to be used for housing and other needs (medical, educational, etc.). To qualify, a member must have made at least 24 monthly contributions and is an active member upon loan application. The loan is payable over a period of 24 months and bears an interest rate of 10.75 percent per annum. On the 12th month of repayment, 50 percent of the loan may be rolled over.

After the twentieth year of membership (beginning at age 45) and under contingencies that include separation from work due to health reasons and early retirement, a member may withdraw the total accumulated value in his individual account. This amount includes the employee's share, employer share and dividend earnings.

(c) Emergency Loan Program for Displaced Workers. From mid 1998 to 2000, 46,000 unemployed SSS members were allowed to take out a maximum loan amount of P12,500 chargeable on their future benefits if not paid within two years. Except for the subsidy on the interest rates (pegged at 6 percent), SSS members who otherwise were not likely to have access to consumption credit were able to draw down on their own savings or were borrowing from their future contributions. A similar program exists for sugar workers (P100 million Emergency Loan Program for Workers in the Sugar Industry).

The Social Security System was (SSS) introduced in 1957, and the system originally covered employers with more than 50 employees. Later the potential coverage of SSS was expanded to all employees, self-employed, and informal sector workers earning at least 1,000 pesos, such as ambulant vendors and watch-your-car boys. SSS currently has about 21 million registered members, but the number of contribution-paying members is only about 6 million. SSS covers sickness, retirement, maternity, disability, and death and funeral. The participants can also get loans from SSS, for short-term financial needs, for financing small entrepreneurial projects, and for housing through SSS' direct support to Pag-IBIG Fund program. The contribution rate is 5.07 percent for employers and 3.33 percent for employees.

Employees' Compensation Program (EC) is a compensation package for public and private sector employees, introduced in 1975. The Employees Compensation Commission, which is in charge of the program, is an agency attached to the Department of Labor. The EC program aims to assist workers who suffer work-related sickness or injury resulting in disability or death. The contribution rate is 1% for employers, through the State Insurance Fund. The benefits under the EC program may be enjoyed simultaneously with benefits under the SSS program. All SSS-registered employers and their employees are compulsorily covered under the program (others are excluded).

During the Asian financial crisis, the EC was mainly a source of finance for the emergency loan that was administered by the SSS. In 2000 the EC had more than P10 billion in accumulated contributions from employers (see box 3.1 and table 3.7 in which we summarize some social safety net programs in recent years, including the emergency loan program for displaced workers). This emergency loan program for displaced workers was an effort by the government to provide a replacement for benefits that cease to be accessible to members who become unemployed. For example, while the total salary loans given to SSS members in 1997 was P5.8 billion in 1997, this amount went down to P4.9 billion by 1998, at the peak of the crisis. The total salary loans given out prior to the crisis in 1996 amounted to more than six billion pesos.

Pag-IBIG. The Pag-IBIG Fund is a mandatory contributory fund mainly used for housing finance purposes. Coverage is mandatory for all SSS members earning P4,000 and above monthly. Membership to the fund is also open to employees earning less than P4,000 and self-employed. As of year-end 1998, fund membership level stood at 4.6 million. The contribution is 1 percent for employees with monthly compensation less than P1,500, and 2 percent for those with monthly pay over P1,500. Employers are mandated to match their employees' monthly contributions with an amount equivalent to two percent of the monthly compensation of each covered employee. Dividends from the Pag-IBIG saving are tax-free, and a member can carry his saving from one company to another. Withdrawal from Pag-IBIG is allowed at the membership maturity after 20 years and retirement from labor market (by age or disability). Members have access to short-term loans of up to 60 percent of the total accumulated value of their account for medical, educational, livelihood, minor home improvement and other related needs, with interest rate of 10.75 percent. Members can also borrow from Pag-IBIG up to P500,000 for housing.

Implications for program choice and design. The existence of various saving mechanisms suggests that precautionary saving has deep roots in the Philippines society. Moreover, it is interesting to note that such saving mechanisms have been used to provide collateral for consumer and other types of loans– that is, that programs with similar features as individual savings accounts have emerged by themselves, and that in case of emergency loans for displaced workers, such programs have also covered the unemployment risk. Therefore, it seems that a natural way to strengthen existing mechanism dealing with income shocks is to encourage individual savings accounts and extending the scope of their use – basically to cover, on top of existing contingencies, also the risk of unemployment.

3.8 Administrative capacity for beneficiary screening

One important consideration when choosing an income support program is the availability of administrative capacity necessary for its implementation. Below we focus on the capacity to evaluate initial eligibility for program benefits, as well as to monitor the fulfillment of requirements for continuation of the benefits. Administrative capacity involves the capacity to generate and process information on (i) the payment of program contributions by or on the behalf of the worker, as well as (ii) the employment/unemployment status, job search effort, and incomes from other sources and assets of the worker, and (iii) his/her family circumstances – number of family members, as well as their incomes and assets.

The experience with forced saving mechanisms described above suggests that information requirements about the payment of program premiums do not constitute a significant barrier for the introduction of unemployment programs of contributory nature in the Philippines. For example, the SSS administration keeps records of contributions of its active members so as to be able to calculate the pension benefits – and precisely this kind of information system would be necessary for the administration of programs such as unemployment insurance/assistance and unemployment insurance saving accounts (UISA). Moreover, recent advancements of information and communication technology suggest that record keeping of payments of premiums as well as disbursements of funds will become increasingly more affordable even in low-income countries such as the Philippines.

While information technology is instrumental in maintaining the records about payment of premiums, it is only of limited help when it comes to determining labor market status and job search efforts as required by unemployment insurance/assistance programs. In fact, several factors make monitoring of labor market status and job search efforts quite a challenging task also for more developed countries. First, what is the best way to monitor "availability for work" – the requirement often used to curtail informal employment? Different countries use different approaches, but they all have shortcomings. For example, recent amendments in the unemployment benefit law of Slovenia require that benefit recipients make themselves available for contacts by employment offices for three hours per day, but preliminary results show little effect on disqualification. Moreover, such an arrangement may well backfire because it forces employment counselors to assume two opposing roles: one of job facilitator, and the other of a policeman. On the one hand, counselors try to help the unemployed by preparing a job plan, directing them to training etc. On the other hand, they are forced to "spy" on the availability of the unemployed to find out whether they are in fact available to take a job – and, if deemed necessary, disqualify them from getting the benefits. Second, similar difficulties are related to the monitoring of the requirement of "actively seeking employment." Because this requirement entails many different aspects, it cannot easily be incorporated in legislation. What can normally be reasonable to expect from the unemployed may well depend on individual circumstances (such as skills, qualifications, experience, and also the length of the unemployment spell), as well as on available vacancies in the local labor market. Third, additional problems are involved in defining a "suitable job," and with limiting the amount of work that may be undertaken without being disqualified for the benefit.

For several reasons, the task of monitoring labor market status is even more difficult for a low-income country like the Philippines. Above all, monitoring of availability to work, and earnings obtained in engagement in informal sector, is virtually impossible. As discussed above, a very large informal sector, together with the ease to enter and exit informal sector activities, imposes large costs on verification procedures to identify the status of unemployment, as well as earnings of individuals. At the same time, the income forgone due to adherence to program rules would probably be very large in relative terms, because the difference in productivity between the formal and informal sector is much smaller in the Philippines than in developed countries. The task of monitoring eligibility could become somewhat easier when a link between the Social Security System (SSS) and Public Employment Service Offices (PESOs) is established (currently, however, such link does not exist yet, as the capacity of PESOs in terms of information technology is still very limited). Another matter is also whether the rules, even in the absence of information problems, are strictly enforced due to political considerations. In the near future, the computerized records of monthly pension fund payments by the three million paying members at the Social Security System has the potential of being transformed into a tool for determining the employment status of these (mostly formal sector) workers. But there is no similar institutional starting point for determining the employment status of around 7 million other wageworkers who are not covered by either the private sector or the public sector pension scheme.

Even higher administrative costs can be expected under a formal means-testing program such as unemployment assistance – a program which, in addition to checking the labor market status, requires also the information about the income and assets of the applicants and their families. In part, this is because income tax returns in the Philippines are not reliable indicators of income, except possibly for the subset of wage workers who are regular paying members of the pension funds.[7] In the absence of reliable administrative databases and self-selection mechanisms, public employment service offices must put significant resources in means-testing function – otherwise, leakages of program benefits to the non-poor workers could be very large. For example, despite significant costs the University of the Philippines regularly verifies the information required by its means-testing scheme for determining students' eligibility for tuition fee subsidies and allowances – and often finds cases of under-declaration, despite the fact that the existence of monitoring undoubtedly contributes to the deterrence of such behavior (see box 3.2).

[7] Because employer contributions to the pension funds are -- up to a point -- a rising function of the declared income of the worker, this creates some incentives against a systematic under-declaration of income from wages. There are, however, many other sources of income outside of wages that cannot be similarly tracked.

Box 3.2: Means-testing at the University of the Philippines

In 1989, the University of the Philippines introduced The Socialized Tuition Fee Assistance Program (STFAP) to target financial assistance to students from poor families. The assistance is graduated: those placed in the lowest income category receive monthly stipends in addition to tuition waiver; those placed in top income category – and those who do not file applications – are charged a full tuition fee, and those in the middle receive a graduated tuition waiver.

Because in the Philippines income tax returns are not considered reliable, applicants are required to provide information and documentary support on a range of questions. For example, the applicant must provide verifiable information on employment and sources of income of parents and siblings, as well as close relatives who may be in a position to provide assistance to the student. Detailed information on a range of assets the family owns must also be reported (including, for example, the vintage of the family car), as well details on consumption (the utilities bill and travel expenditures).

The STFAP staff of sixteen people must screen an average of 5,000 applications per year. The process involves receiving applications, verifying the supporting documents for correctness, checking if all pertinent information was supplied, contacting the applicants to correct and complete deficient applications, and encoding school records. In the year 2000, the STFAP program had a budget of P3.2 million for the salaries and administration costs; this amounts to administrative costs of P640 per applicant (or $13).

In three months of the year when applications are not being processed, random surveillance checks or "home visits" are conducted all over the country (in 1999, there were 500 of them). Visits of students who appeal their income bracket classification are also regularly conducted. The budget for surveillance activity has been growing over the decade since the program started. Ten percent (fifty cases) of these visits revealed various degrees of under-declaration. The penalty for providing misleading information can result in the loss of eligibility for benefits and expulsion from the university, and may include a demand for the reimbursement of past benefits. There have been several well-publicized cases of suspension.

Source: An interview with Ms. Bella Villanueva, director of the UP Diliman STFAP Office.

None of the PESOs around the country come close to developing the administrative capacity necessary for checking the labor force status and job-search efforts, and for means-testing. A survey of 61 PESOs (Ofreneo 2001) in Central Luzon (a relatively developed region right outside of Metro Manila) reveals that in the year 2000, 82 percent of PESOs had only one employed worker who had other tasks aside from implementing the PESO programs. Except in a handful of highly urbanized locations like Angeles City, Pasig City and Bulacan, most PESOs around the country are active only during summer months of April and May and during the Christmas season when the screening of participants in the wage subsidy program (the Special Program for the Employment of Students - SPES) takes place. For example, during the Asian financial crisis, PESOs carried out a modicum of beneficiary screening of candidates for SPES, rural public works programs, and an emergency loan program for displaced workers. But the screening was incomplete: because the PESOs had no information on reemployment of workers, they could not exclude from the programs those workers who may have already found a job by the time they applied to participate in the labor department programs. Most of the PESOs are also under the direct supervision of local chief executives and this has sometimes meant that politicians sought accommodations in PESO programs that benefit their political supporters.[8]

Administrative capacity for implementing labor-based public works schemes seem to be in a better shape, as such tasks have become routine for local governments in the Philippines. There are also around seven hundred engineers mainly at offices of the Department of Public Works and Highways all over the country who have received training on this construction technology. What needs to be further improved, however, is the capacity of local governments to bid out, program the timely release of financing, and monitor contract compliance for small public works projects.

Implications for program choice and design. The above discussion makes clear that in a low-income country like the Philippines, monitoring of income support programs is more demanding and costly than in developed countries – and the existing capacity much poorer. There are two reasons that make effective monitoring of unemployment insurance/assistance eligibility conditions more costly. First, given abundant employment opportunities in the informal market, monitoring of labor market status of (potential) beneficiaries requires relatively more resources for the detection of labor market status of (prospective) beneficiaries and their labor market opportunities. Second, the ability to use various administrative databases for determining labor market status and for cross-checking is more limited. As for the existing administrative capacity of the Philippines, the above review makes it clear that at this point the PESO system still lacks the administrative capacity for determining the employment status of workers as required by unemployment insurance and unemployment assistance, and to carry out means-testing, as required by unemployment

[8] There are anticipations at the labor department that things will take a turn for the better. Implementing rules for a new PESO law issued in 2000 include a plan to provide resources and permanent full time personnel for PESOs found in provincial capitals and key cities and municipalities around the country. These PESOs will be directly under the supervision of the labor department.

assistance. Somewhat better is the administrative capacity for the implementation of labor-based public works schemes.

4. Choosing Among Alternative Income Support Programs

This section describes alternative public income support programs that are available to the unemployed in developed as well as some developing and transition countries, and evaluates how appropriate they are deemed to be for the Philippines. The evaluation derives from the discussion of the preceding two sections, using the analytical framework developed in section 2, and drawing upon country-specific conditions discussed in section 3.

The following income support programs will be focused upon:

- unemployment insurance,
- unemployment assistance,
- severance pay,
- unemployment insurance savings accounts,
- public works, and
- livelihood programs.

All programs will be discussed in a similar fashion: we will describe stylized features of the program, analyze arguments in favor of and against the program, and if deemed appropriate, elaborate issues which may arise in the implementation of the program in the Philippines. Note that as late as in 1996, a proposal for the introduction of a very modest UI program – the most common program of income support for the unemployed in developed countries – did not gain approval either from the employers or from trade unions (the program proposed a flat fee of P1,000, payable for up to 3 months, to be partly repaid upon reemployment – see the description in UNDP-ILO, 1996). This rejection gives the exploration of alternatives to the unemployment insurance program even greater importance.

4.1 Unemployment insurance

Description. Unemployment insurance (UI) is the most common income replacement program for the unemployed workers in developed countries. It is typically mandatory and covers, with few exceptions, all workforces in these countries. To qualify for UI benefits, the worker must satisfy the minimum covered employment or contribution requirement. The cause of dismissal may affect the individual's eligibility for benefits, with quitters often being disqualified. Continuing eligibility requires that applicants are available for and willing to take a job, and that they actively search for it. Non-compliance can result in the permanent or temporary suspension of benefits. Benefits are usually a proportion of average earnings over some stipulated period of the most recent employment spell. Generally, the initial replacement rate is between 40 and 75 percent of average earnings. Wage or benefit ceilings are used to limit the range of the benefits; benefit floors, typically at minimum wage, are also sometimes present. In addition to the basic benefit, dependent supplements (either flat-rate benefits or an extra percentage of average earnings) are sometimes provided. Benefits commonly decline over time and are limited in duration (in some countries, means-tested unemployment assistance is available after the unemployment insurance eligibility expires). Programs are usually financed by contributions paid by employers and/or employees.

Arguments in favor of the program. Unemployment insurance is undoubtedly the most important income support program for the unemployed in developed countries. It has been found that it is quite effective in fulfilling its mission – in developed economies, it provides broad coverage and adequate consumption smoothing. Moreover, because it pools the risk across large groups of workers, it is suitable under most types of income shocks.

Arguments against the program. With UI being the standard approach to provide income support to the unemployed in developed countries, it is important to realize the danger of the "mechanic" transplantation of such a program to a low-income developing country. Namely, it has been shown that the UI system performs relatively well under the following circumstances:

- Conducive labor market institutions.
- Low share of informal economy.
- Strong administrative capacity.
- Absence of persistent structural shocks.
- Low exposure to political risk.

If one of more of the above circumstances are not fulfilled, the UI system does not perform all that well, which means that it may create various types of inefficiencies, above all by increasing equilibrium unemployment rate and reducing the ability for flexible adjustment to income shocks (for a recent survey of the effects of UI, see Holmlund, 1998, and for the interactions of shocks with institutions, Blanchard and Wolfers, 1999).

There are several reasons for advocating a cautious approach when applying traditional unemployment insurance program to the Philippines. It is likely that under the present weak administrative capacity, its introduction would create misuses of the system and incentive problems. By imposing contributions to be levied on wages, the costs of labor may also increase (depending on the elasticity of demand for labor). For both reasons, its introduction could contribute to the growth of the informal sector as well as to the increase of equilibrium level of unemployment. The latter effect is also due to the fact that unemployment insurance would raise the reservation wage, thus increasing the bargaining power of unions, which is more likely to happen given the fragmented nature of wage bargaining in the Philippines. Moreover, by prolonging unemployment duration, it may contribute to the stickiness of unemployment and thus lower adaptability of the economy to shocks – an extremely important point in the Philippines. Moreover, as noted above, a UI system would largely crowd out private transfers (Cox and Jimenez, 1995), and it would benefit primarily already better-off segments of population.[9]

4.2 Unemployment assistance

Description. Unemployment assistance is a means-tested, minimum income maintenance program used in some developed countries (Australia, New Zealand, and Hong Kong), as well as in some transition countries.[10] Benefits, which are usually in cash, but can be in kind as well, are granted to working-age individuals who are unemployed and do not have the necessary financial resources to maintain a minimum standard of living for themselves and their families. Cash benefits are typically flat rate at some officially stipulated level, or equal to the income gap of the applicant family. Means or income testing is conducted not only on the personal financial resources of the applicant but also on that of his/her spouse and other adult members within the household. Aside from incomes, the level of benefits can vary according to factors such as marital status, the presence or number of

[9] A recent ILO study also argues against an immediate introduction of the UI system in the Philippines, noting that currently there is no social consensus on such an introduction and questioning the affordability of the scheme (ILO, 2001).

dependents, and the age of children. Benefits are periodically adjusted for inflation. Unemployment assistance benefits are sometimes offered indefinitely, so long as the recipient satisfies the eligibility conditions. Benefit duration is sometimes limited for recent graduates and other groups while it is extended for claimants near early or regular retirement age.

Like unemployment insurance, unemployment assistance programs require applicants to be capable and available for work. Claims are reviewed at regular intervals to assess job-seeking intensity and to determine changes in household economic and other circumstances that may require a change in the benefit level. In some countries, eligibility for unemployment assistance is not conditional on previous employment or contribution history. Unemployment assistance is financed by governments through general tax revenues, except in countries with dual unemployment insurance/assistance schemes, where the source of financing is the same as for unemployment insurance.

Arguments in favor of unemployment assistance. The main advantage of unemployment assistance over unemployment insurance is the possibility of savings, created by denying or reducing the benefits to those who do not pass the means test. For a low-income country like the Philippines, this is an extremely important consideration.[11]

Another important plus for the program is its highly progressive nature. For example, roughly 58 percent of cash benefits in the Australian UA system are paid to those in the three bottom deciles of the income distribution. Comparative data for 13 OECD countries in 1995 show that the overall share of transfers going to the bottom three deciles ranged from 20.8 percent in Italy to Australia's 58.0 percent, with the second highest percentage being 53.5 percent in France. Conversely, the top three deciles in Australia received 7.4 percent of transfers, the lowest percentage across the same 13 countries (all data from Vroman, 2001).

---

[10] A similar program, offered to all poor individuals – not just the unemployed – is called social assistance; it is widely used in developed economies, but we do not discuss it because it would impose prohibitively large fiscal costs in a country with such a low income per capita as the Philippines.

[11] There is little empirical evidence on the size of savings generated by the UA system. Vodopivec, Woergoetter and Raju (2001) show that among European transition countries, Estonia – a country where the unemployment benefit system strongly resembles unemployment assistance program – has by far the most frugal unemployment benefit system. On the other hand, based on the analysis of the Australian system, Vroman (2001) finds that the costs of the UA system may not be necessarily lower than those of the UI system. Vroman's comparison of the costs of the two systems, however, ignores the fact that about 20 percent of Australian UA recipients are regular wage earners, the category which is excluded from UI benefits in other countries. Moreover, for countries with UI system, a proper comparison should combine the costs of social assistance with those of the UI system.

Among transition economies, the distribution of unemployment benefits was also most progressive in Estonia, the country with an unemployment benefit system that resembles unemployment assistance (see table 3.4).

Arguments against unemployment assistance. The above benefits of the program, however, have to be balanced against serious shortcomings of the program. The most important shortcoming is the heavy administrative capacity required for administration of unemployment assistance. As described in box 3.2 above, a similar screening of applicants for tuition waiver at the University of the Philippines is carried out at a cost of P640 (around $13, as of end of 2000) per applicant – a cost that seems prohibitively large for the purpose at hand. To put this cost in perspective, note that per capita social sector spending in the Philippines was only P415 in 1998.[12] Similarly, Subbarao et al (1996) report the administrative cost of one peso for every two pesos transferred to the poor through the Department of Social Welfare and Development program providing cash transfers to the ultra poor.

The need for heavy screening of the applicants under the unemployment assistance program arises from the fact that the program is prone to moral hazard problems: only sufficiently low family earnings trigger the payment of benefits – hence disincentives to take a job or to work longer hours. For example, empirical evidence shows that unemployment assistance creates disincentives for family members of the recipients to take a job: Terrell et al (1996) report that the presence of an unemployed spouse lowered the hazard of exit to employment of assistance recipients by 72 percent for females and by 82 percent for males in the Slovak Republic; Boeri (1997) reports similar effects for Poland. And especially for the unemployed with low skills, the receipt of unemployment assistance creates a "joblessness trap" because of the high effective taxation rate upon taking a job.[13] The unemployed thus have to be monitored whether they are available and willing to take a job, and whether they are actively searching for a job – the conditions especially difficult to impose in a country like the Philippines (see the discussion above of the country's administrative capacity).

---

[12] This estimate is the sum of per capita spending for the poor in the areas core areas as health, education, water, nutrition, social welfare and livelihood programs (see table 17, p. 20 in Manasan, July 2000).

[13] Vroman (2001) shows that the Australian unemployment assistance system has serious problems with labor supply incentives created by high effective marginal tax rates.

Implementation hurdles therefore suggest that unemployment assistance program would impose large monitoring costs, and may produce important leakages. Together with the fact that the unemployed are not among the least privileged groups of population (see the above discussion of the structure of unemployed), that means that the program would not fare highly also from the aspect of redistribution. And, as with unemployment insurance benefits, the existence of unemployment cash benefits would largely crowd out private transfers, substituting, among others, subtle monitoring mechanisms that exist among close friends and relatives with much cruder administrative controls.

4.3 Severance pay

Description. A severance pay is a lump-sum payment made to discharged workers either voluntarily by employers (through collective agreements or as part of firm policy) or as mandated by governments. They are offered for both individual and collective dismissals, usually with no special dispensations for the latter. Coverage is generally broad, encompassing both white- and blue-collar workers across the entire spectrum of economic activity. However, in some countries, severance pay is provided only in some sectors, industries, or firms above certain sizes (these practices are more common in developing countries). Severance pay is typically provided to individuals who are separated involuntarily, but dismissals due to misconduct of workers are not covered. Minimum years of service requirements are also sometimes used to limit eligibility.

As a rule, severance benefits are some function of the years of past service. The standard formula is one month's pay for each year of service. In general, severance pay is financed by employers. However, in some countries, the government provides financial assistance, particularly for large-scale restructuring operations involving worker retrenchment *en masse*.

As described above, in the Philippines, the employment protection legislation requires a month for notification and severance pay equal to at least one month pay for every year of service in case of redundancy, and a half-month pay for every year of service in case of retrenchment to prevent losses and in cases of closures. In the event of bankruptcy or liquidation, workers have first preference as regards their wages and other monetary claims.

Arguments in favor of severance pay. In many developing countries, severance pay is the only formal income support program available to unemployed workers. For workers suffering the loss of earnings due to a job loss, severance pay is undoubtedly a very valuable benefit as it helps to mitigate the reduction of consumption. For example, MacIssac and Rama (2000) find that in Peru, per capita consumption by the unemployed decreases by 10 to 20 percent. For those unemployed who received severance pay, however, the receipt of severance pay even more than outweighed the effect of unemployment, so that the consumption per head in the initial stages of unemployment was higher than the consumption per head of otherwise similar workers who are employed. Moreover, as far as efficiency effects are concerned, it has to be emphasized that because the amount of severance pay is not contingent on the duration of subsequent unemployment, it does not alter the behavior of workers when searching for a job, that is, it does not create a moral hazard problem pertaining to job-search incentives.

Another argument favoring severance pay schemes is that its administration does not require sophisticated bureaucracy. Because the release of the severance pay is a transaction between employers and employees, the role of government is mainly regulatory.

Arguments against severance pay. As other programs offered to formal sector workers only, severance pay beneficiaries tend to be concentrated among the richest segments of population. In the absence of information on severance pay in the Philippines household surveys, we rely on data on "back wages" as proxy for severance pay.[14] Table 3.4 shows that richer households are by far more able to enforce their claims when employers violate the procedures on dismissal to avoid severance pay; in all likelihood, then, severance pay benefits are also concentrated among the richest segments of the population. Moreover, workers in certain sectors with large seasonal or temporary workforces do not benefit from severance pay because they never become entitled to it (for example, workers in construction, and catering and tourism). Furthermore, because the severance pay is "backward looking" (that is, it is based on the duration of employment with the current employer), it does not provide income support in proportion to the duration of the unemployment or to the loss of income. It therefore does not provide adequate protection to long-term unemployed.

Even more important are the negative efficiency effects of severance pay. Numerous studies have found that strict employment protection (of which severance pay is its key

[14] "Back wages" refer to income received by workers who have been reinstated after illegal dismissal by employers. One expects that the experience of illegal dismissals is more common among low income workers, because they are less likely to understand their rights, and are also less likely to be union members.

element) reduces employment.[15] For example, the results of Lazear (1990) show that the increase of severance pay by one month reduces employment per head about 0.4 percent and reduces labor force participation rate by 0.3 percent. Some new evidence includes (i) OECD (1999), with the finding that the negative effects are concentrated among prime-age women, youths, and older workers; (ii) Haffner et al (1999), who find negative association between the strictness of employment protection legislation and employment rates in OECD countries; and (iii) Heckman and Pages (2000), who also confirm the link between job security and lower employment and attribute 5 percentage points of reduction of employment in Latin America to job security provisions. Moreover, Lazear (1990) also shows that severance pay contributes to turning full-time jobs into part-time ones, and OECD (1999) finds a strong link between stricter employment protection legislation and higher rates of self-employment.

Because the amount of severance pay – and even the obligation to pay the benefit – depends on the circumstances of the separation from the company, determining the cause for separation is contentious. These disputes between the employers and workers are often brought to the court and thus raise large litigation costs – and workers often do not get the benefits, or get them with substantial delay. For example, in October 2000 there were about 45,000 outstanding lawsuits over the cause of separation (to put this number in perspective: according to Bureau of Labor and Employment Statistics, 155,000 workers in formal sector establishments were separated from work in 1998).[16] Many disagreements are about the reason for dismissal – the compensation for layoffs to avoid "further losses" is higher than for layoffs because of redundancies. Court cases also drag on in instances when firms have declared bankruptcy. Although according to law workers have priority over the assets of a company, courts have had to step in, in an effort, often futile, to enforce such claims. Workers who feel they have been unjustly dismissed by their employers to avoid the separation pay have also resorted to the courts for redress.

[15] The predicted effects of severance pay on unemployment are ambiguous: severance pay increases firing costs and as such reduces the probability of an individual transiting from employment to unemployment, but at the same time – through stifling job creation – severance pay also reduces the probability of entry to employment. Consistent with theoretical predictions, the effects of employment protection legislation (of which severance pay is one of the most important determinants) on unemployment are largely inconclusive (for a survey of the effects, see OECD, 1999). However, several studies find positive effects on long-term unemployment.
[16] Interview with Mr. Benedicto Ernesto Bitonio jr., Undersecretary of Bureau of Labor Relations.

Severance pay schemes are also not immune from the procyclicality problems that often beset publicly administered programs. In times of crises, companies face a liquidity problem because of the firm's declines in sales – and precisely at that time the likelihood to pay severance benefits is the highest. This calls for requirements to have a funded severance pay scheme, which poses its own enforcement problems.

4.4 Unemployment insurance savings accounts

Description. Under the unemployment insurance savings account (UISA) system, firms and employers are required to deposit a fraction of worker's earnings into a special individual savings account. There is a need to make such programs compulsory because workers, although aware of unemployment risks, may be myopic and might not save on their own. Workers may also bank on the chance that the government will provide aid anyway to those who did not set aside funds. Upon separation and regardless of the reason for separation, workers receive the amount accumulated in their UISA. Some programs allow access to these accounts for other reasons too (for example, health and education expenditures).

In its pure form, the benefits from the UISA proposal are not funded from general taxes. However, according to some proposals (see, for example, Cortazar, 1996, and Feldstein and Altman, 1998), the unemployed are able to draw benefits as under the traditional unemployment insurance, and the government lends money to accounts where the balance falls below zero. At retirement, positive balances would be added to the individual's retirement income, and negative balances would be forgiven.

The UISA system is still very much a new idea, although in Brazil such a system has been in place for several decades, and has been introduced by several other Latin American countries recently. Uruguay has a dual public / private insurance system which covers, among others, old age and unemployment insurance. In several Latin American countries, all formal sector workers are covered, while in others coverage is limited to certain sectors.

Arguments for UISA. It is expected that by internalizing the costs of unemployment benefits, the system avoids the moral hazard inherent in the traditional unemployment insurance/unemployment assistance schemes; given the weak monitoring capacity of the Philippines, this is a very important advantage. Moreover, if UISA contributions are borne by workers (Kugler 2000 confirms this assumption for Colombia), they do not raise labor costs nor push workers into the informal sector.[17] It has to be noted that administrative complexities for the introduction of the UISAs do not stand out as prohibitive; for example, old-age insurance systems introduced in many Latin American countries require similar information systems.

There are also important other considerations – having to do with the country's specific circumstances – that speak in favor of the introduction of UISA systems in a country like the Philippines. First, being payable also in cases of voluntary separations, the system would cut on the litigation costs of severance pay described above (and encourage labor reallocation at the same time). Second, under the traditional UI system, employers often cheat and do not pay social security contributions without informing the workers. By transferring money to individual accounts, workers perform monitoring by themselves, and thus the UISA effectively avoids this problem. And third, the existence of severance pay schemes, and several other funded schemes, would ease the transition to the UISA system (we elaborate on implementation issues in a separate subsection below).

Arguments against UISA. There are also several important shortcomings of the UISA system. First, as noted above, the UISA system, by its very design, does not "pool risk among individuals, and thus may be less efficient than those that do so explicitly (such as formal unemployment insurance) or implicitly (such as income support programs financed from general tax revenues)" (de Ferranti et al, 2000 p. 89). Along the dimensions of risk pooling, even severance pay schemes could be considered to be better than UISA.[18] This is UISA's most serious shortcoming. Second, in countries with a large informal sector, the UISA beneficiaries are concentrated among the rich. As can be seen from table 4.1, nearly 80 percent of the UISA beneficiaries in Colombia are from the richest quintile of income distribution. Third, young workers or labor force entrants are not able to accumulate enough savings at the time of separation from work to tide the worker and his household over the

[17] In principle, while some of the burden of accumulating an individual account can nominally be assigned to the employer, the extent to which the employer bears this cost in actuality depends on the firm's price elasticity of demand for the services of specific employees. The higher the firm specific skills of the worker, the smaller the likelihood that funds that go into workers' individual saving accounts will merely be deducted from the wages and salaries of the workers.

[18] But note that under some proposals (such as Feldstein and Altman, 1998), distributive properties of UISA are no worse than under the traditional UI system, because under that proposal individuals with negative balances would still be able to receive benefits, with similar rules of withdrawal as under the traditional UI system.

unemployment spell. Fourth, there is a possibility of the ineffective investment of publicly managed UISA funds, based on political consideration.

Implementation issues. The above objections need not be fatal to the proposal for introducing UISA in the Philippines. Hybrid arrangements can be conceived that correspond to the preference of the stakeholders regarding risk pooling. In fact, several features of the Philippine economy make the introduction of the UISA system an attractive option that can be gradually introduced to different sectors.

First, the introduction of the UISA scheme could be linked to merging of the existing severance pay scheme and with other schemes (for example, with Pag-IBIG and Social Security) to offer government-managed comprehensive savings account. The burden on employers need not increase much, which should make them more amenable to the introduction of this new program. A comprehensive account would also provide insurance more effectively – currently, each program covers exclusively a particular risk (housing, unemployment loan, old age), which is sub-optimal because these risks are not perfectly correlated.

Second, the 1992 private sector retirement pay law, despite official misgivings as to its appropriateness, already provides legal basis for additional retirement benefits.[19] The likelihood that these benefits are actually paid, and their usefulness to workers, would substantially improve if these entitlements were converted to deposits to individual savings accounts from which withdrawals could be made also in cases of unemployment. Borrowing from one's future retirement income stream during unemployment spells and replenishing this account automatically during employment makes a lot of sense if the proper safeguards against myopia are also implemented. Although there is still no clarity as to the implementing guidelines of the retirement pay law, presumably a mechanism should exist that would allow the worker to accumulate from each employer even as he moves from one place of employment to another. If it is decided that this fund should be lodged at or remitted

[19] According to the retirement pay law of 1992 (Republic act no. 7641), "In the absence of a retirement plan or agreement providing for retirement benefits of employees in the establishment, an employee upon reaching the age of sixty (60) years or more, but not beyond sixty-five (65) years which is hereby declared the compulsory retirement age, who has served at least five (5) years in the said establishment, may retire and shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one whole year."

to the SSS or other duly authorized financial institutions, then it adds to the amount that the unemployed worker may draw from during his spells of unemployment, thus presenting opportunities for making the implementation of UISA schemes easier.

Third, in the Philippines there are several programs that offer consumption smoothing. These programs, some of which are also funded, show that individual savings accounts are not hypothetical constructs as far as the Philippines is concerned. In important ways, existing private and public programs share the nature of forced or voluntary precautionary savings that workers could tap in case of unemployment. These programs include policy loans from private life and non-life insurance companies, Pag-IBIG scheme, and emergency loan program for displaced workers (see section 3.7 above).

To sum, there are several possible institutional entry points for introducing UISA in the Philippines (see table 4.2). First, the workers and their employers could be given the option and inducements to migrate from the severance pay scheme to a mandatory system of UISA (the latter could be set up using the publicly funded administrative apparatus of the

Table 4.2: Institutional entry points for introducing UISA in the Philippines*

	Required Institutional Adjustment	**Remarks**
Severance pay system	Conversion of the severance pay scheme into a funded scheme. Requires legislation.	High level of consensus necessary.
1992 Retirement Law/CBAs	Issuance of implementing rules to create public and/or private modes of implementing this mandate, and limits of the withdrawal of funds.	
SSS Emergency Loan Scheme	Requires issuance of new implementing guidelines from the State Insurance Fund that converts the P500 million loan from ECC into a continuing credit line..	Improvements in current beneficiary (SSS members) tracking to strengthen the loan collection necessary.
SSS Salary Loan	Streamlining of paper work and quicker approval of conversion from the status of "employed" member to self-employed member. Institution of loan collection schemes and continuing credit line for a starting trust fund to avoid cash flow problems.	SSS needs to improve its information system (especially regarding re-employment status), more pro-active loan collection.

SSS).[20] Severance and retirement schemes could also be used to jointly build up the savings account. Second, the issuance of implementing guidelines for the retirement pay law could be an institutional innovation to create retirement-cum-UISA system (workers could borrow for unemployment insurance purposes when they are unemployed, and draw old-age pensions when they retire. To facilitate such a transition, the expansion of the market-based insurance programs should be promoted by allowing the company to be exempted from the mandatory contributions to Pag-IBIG if it offers its workers other housing *and/or* provident packages through private insurance firms (as it seems to be the case with firms that had introduced housing or provident funds before the Pag-IBIG fund law was enacted). Third, the emergency loan program for displaced workers could be implemented on a regular basis from SSS. This could have no fiscal implications for SSS, because loans would be covered by the members' own assets.[21] Although additional implementation guidelines may be necessary, the implementation of this option seems entirely in the discretion of SSS administrators.[22] And fourth, SSS could extend a salary loan to the self-employed with a sufficient history of contribution. Note that the SSS has plenty of assets on the basis of which it can raise liquidity. Given the stringent requirements for eligibility – regular payment of contribution for several months – the possibility that the program will benefit members who

[20] In Latin America (e.g., Colombia), the conversion of a severance pay scheme into mandatory individual savings accounts has spurred the development of insurance firms as suppliers of assets that workers may tap during spells of unemployment.

[21] Although the electronic information system installed at the SSS permitted the tracking of beneficiaries who have resumed normal employment, loan collections, say, through the temporary imposition of higher premia on the loan beneficiaries, were not implemented.

[22] It is also possible for the SSS to give workers continued access to benefits during unemployment through what seem to be only very minor adjustments in the paperwork that allow workers to automatically convert their status to being self-employed upon receiving the advance thirty-day notice of dismissal from their employers. To retain access to benefits, workers need to continue paying the small monthly contributions. The October 1999 version of the guidebook for SSS members explains that "a member who is separated from employment should accomplish SSS form E-5 for approval by the SSS. Form E-5 is the application to continue paying SSS contributions and this allows the person to become a voluntary member with full access to benefits. It would seem that if this application and approval process does not take place then the member is deemed ineligible for a salary loan despite having been a faithful contributor in the immediate past. Once approved as a voluntary member, however, the guidelines appear to say that the unemployed worker can once more have the privilege of a "salary loan". To wit: a person is qualified for a salary loan if he is either "an employed, a currently paying self-employed or voluntary member who has paid at least 36 monthly contributions;" and he or she must be up to date in the remittance of contributions and loan repayments. If this is right then the unemployed worker/voluntary member will be eligible to file a loan of up to P15,000 or a smaller amount roughly corresponding to what he would have received as an employed member.

are only temporarily employed in the formal sector is small. To reduce the losses, a limit could be imposed on the loans.

Some crucial design elements for the above options need careful elaboration. Important questions relate to (1) how to prevent members from drawing down their retirement fund beyond certain limits; (2) how to set up a loan collection and individual fund replenishment system to maintain the liquidity of an emergency loan trust fund; and (3) whether to combine several contingencies and establish a comprehensive savings account that covers multiple risks. This last alternative has important merits, as it covers several contingencies interchangeably and thus provides an efficient means for management of various risks. The above options also require adequate administrative capacity. Note, however, that this capacity does not refer only to the ability to track accessions and separations of workers, but also necessarily pertains to the incentives of program administrators to assemble and use available information to help improve the performance of programs. And last but not least, the introduction of UISA would raise serious political economy issues, as senior workers, for example, would not want to give up their entitlement to a severance pay. The Colombian transition might provide a good model for the transition out of the severance pay scheme (see box 4.2).

Box 4.2: Colombia's mode of transition out of the severance pay

The Labor Reform Law of 1990 established that severance funds were to be deposited annually in worker accounts at specialized financial entities created to this end, where these funds were to receive a market return and where certain partial withdrawals were allowed. In this way the uncertainty of the labor cost was eliminated, though only for new contracts. In fact, the law allowed for the old system to apply for existing contracts, except in the case of free negotiations between workers and firms. Not too many workers voluntarily shifted to the new system. However, because of high worker turnover, by mid 1994 only 20.7 percent of the manufacturing sector workers and 14.5 percent of the retail sector workers were entitled to the old severance pay system.

Source: Lora and Henao (1997, pp 261-69).

4.5 Public works

Description. Public works provide low-wage work to poor individuals. These programs have usually multiple objectives, although the functions of income support and the construction of infrastructure are usually emphasized. Program rules allow for significant control of program participation. For example, they may favor certain groups of the population (such as discouraged workers or the long-term unemployed). Programs may also be used as a work test for recipients of unemployment benefits.

Public works are usually geared toward labor-intensive projects. Projects typically implemented include improvements in community social infrastructure, such as repairing of schools, hospitals, and local roads. Participation is open to anyone, but duration is usually limited. However, setting low wages makes the limited duration feature less necessary, at least early on in program participation. The earnings of participants are set slightly below the market wage, since low wage triggers a self-selection mechanism through which only those in need participate and stimulates the participants to search for a regular job.

There are no public works programs in the Philippines whose primary objective is the creation of employment for the vulnerable rural population. Existing infrastructure programs that only happen to employ labor inputs are, strictly speaking, not public works programs. The objectives of creating jobs, of countering seasonality, of employing local workers – which all characterize public works schemes – are all secondary and not part of the design of existing infrastructure schemes. At best, the programs' administrators try to maximize employment opportunities for workers, whether rural or urban, poor or non-poor, subject to the constraint of providing the desired product, for example, delivering certain number of units of housing within a year at a given cost.

Beyond official intentions to enhance the ability of infrastructure to employ labor, there as yet are no significant public works programs similar to the Maharastra program that are available to workers upon demand. Most recently, closest to that program is a small program of the DOLE called Emergency Employment Program (see box 4.3).

Box 4.3 Emergency Employment Program – Bureau of Rural Works

Until the end of the year 2000 the DOLE was offering jobs in projects like repair and maintenance of school rooms; drainage and waterworks systems; health and day care centers; roads, bridges and irrigation networks; as well as reforestation, cleanliness and beautification programs. The workers were paid the prevailing minimum wage that was determined by the regional tripartite wage and productivity boards. In cases where the municipal government directly hired the workers, the applicable wage followed public sector guidelines and could have been sometimes lower than the minimum wage.

However, data show that public works compensation was above the prevailing agricultural wage. The average compensation for actually implemented and ongoing projects from 1998 to June 2000 was 178 pesos per day. This, as well as most minimum agricultural wage rates in different regions around the country, is higher than the 1998 average agricultural wage rate of P122 per day reported in the latest Agricultural Labor Survey of the Bureau of Agricultural Statistics (BLES, second quarter 2000).

A total of 15,902 workers were expected to benefit from the EEP (Bureau of Rural Workers, June2000). A worker working for the average project duration of 18 days would earn P2,000. Under the EEP, the DOLE pays 60 percent of the workers' wages while the remaining 40 percent is shouldered by the local government units and nongovernment organizations involved. Retrenched workers avail of the program by registering with the nearest Public Employment Service Office. The program was originally conceived as a safety net for those agricultural workers who would be displaced due to the increased competition under the regime of the final agreement of the Uruguay Round of the General Agreements on Tariffs and Trade. The program budget, however, was only P40 million over three years (1998 to 2000). Officials at the labor department's Bureau of Rural Workers contemplate the scaling up of this project.

Arguments in favor of public works. Public works are effective in reaching the poor and have substantial capacity to redistribute income from the rich to the poor (see table 4.1). Moreover, some other conditions usually prevailing in developing countries make public works especially suitable for these countries. First, the widespread informal sector exposes large segments of the population to unemployment and underemployment risk, as they do not have access to programs available to formal sector workers and are vulnerable also to shocks small in absolute magnitude. Second, public works can offer effective insurance by providing a quick response to changes in circumstances of households. In comparison to other programs, public works do not require complex administration, so they may be quickly set up in areas affected with various shocks.

Table 4.1 : Distribution of benefits and beneficiaries of unemployment support programs, mid-1990s*

	Poorest quintile	2^{nd} poorest quintile	Middle	2^{nd} richest quintile	Richest quintile
Unemployment insurance/unemployment assistance**					
Average	15.4	22.3	22.5	20.0	18.9
Brazil	10.6	24.6	19.1	25.1	13.6
Bulgaria	17.8	14.9	32	13	22.4
Estonia	31.1	17.7	19.6	18	13.6
Hungary	7.8	20.4	28.2	24.6	19.1
Latvia	15.7	13.8	18	26	26.5
Poland	14.8	24.1	22.9	21.6	16.6
Slovakia	3.1	33.2	20.8	18.8	24.1
Slovenia	22.5	30	19	13.1	15.4
Severance pay					
Philippines***	0.2	5.2	15.3	22.3	56.9
Peru	4.7	9.5	28.6	33.3	23.8
Unemployment insurance savings accounts					
Colombia	0.0	4.3	n.a.	19.1	76.6
Public works					
Argentina	78.6	15.3	3.5	2.1	0.4
Training					
Mexico	69.9	15.5	8.1	5.0	1.5

Sources: Vodopivec, Woergoetter and Raju (2001) for transition economies; de Feranti (2000) for Latin American countries.

Notes:
*Share of benefits received by individual quintile, for transition economies, and share of beneficiaries in population group, for Latin American countries; percent of beneficiaries in individual quintile, for the Philippines.
**Unemployment insurance benefits include both payments of unemployment insurance and unemployment assistance.
*** "Back wages" – income received by workers who have been reinstated after illegal dismissal by employers, and proceeds from insurance, are taken as a proxy for severance pay (see text).

Several circumstances make public works an attractive scheme for the Philippines. First, the existence of large mono-crop areas makes large segments of the population vulnerable to cyclical and structural shocks (see box 4.4 on coconut farming). Shocks deriving from geography and climate may also lead to a drop in income (see above). Public works can effectively provide insurance for such cases, particularly since such fast responses

Box 4. 4: Helping mono-crop coconut farmers weather El Niño droughts

A recent disastrous drought brought severe hardship to Philippine coconut farmers – suppliers of 60 percent of the world's production of coconut oil – and exposed their extreme vulnerability to risk. By offering coconut farmers a well-designed, flexible public works program, the Philippine government could have significantly mitigated their income and consumption reduction, and even improved their longer-term possibilities for self-protection and for earning non-farm income.

Annual income of the majority of an estimated two million coconut farming households is P30,000, well below the official poverty line of P70,000 per year for an average family of six persons. Severe dry seasons brought by the El Niño phenomenon, the wild fluctuation of copra prices, and the rise in the production of substitutes to coconut oil in foreign markets caused copra prices to drop to between P2 and P3 per kilo by September 2000, representing a 70 percent drop compared to the 1999 buying price of P8 per kilo.

Because local incomes are low, farmers do not have opportunities for generating non-farm income that do not co-vary with activity in the coconut farms. This means that when incomes from farming are low, it is likely that incomes from other activities are low as well. As a consequence of this covariance of income risk, households are much more limited in helping each other through inter-family transfers and other community-based modes of informal insurance and collective savings. Reduced consumption of essential goods and investment in human capital, cutting of coconut trees and slowdown of re-planting to replace senile trees, and the migration of farm hands into the urban areas are among the most obvious coping mechanisms of affected households and farm communities. These have costly long-term consequences in terms of the loss of assets, the reduction of farm productivity, and loss of human capital.

The risks facing the sector are both cyclical (because of drought) and structural (because of emerging substitutes to coconut oil, although coconut oil is still favored by many international buyers for its better lauric content). But coconut farmers are severely limited in their risk diversification strategies and self-protection. Over half of these farm households are mono-crop plantations; inter-cropping is not practiced and households seldom have other sources of incomes except those activities arising from the harvesting, transporting, and semi-processing of coconuts into copra. These activities also slow down when activity in the farms go through their seasonal slumps, except in areas close to Metropolitan centers which are able to take advantage of diversified opportunities for non-farm production. The barriers for risk diversification are the following: (i) the limited size of the local market for non-food products, (ii) the lack of disposable incomes for investing into new ventures, and (iii) high transaction costs and losses due to spoilage of selling non-coconut products to urban markets because of difficult access to urban centers. It is no wonder that among the agricultural crops as well as animal farming, coconut is reportedly the least attractive for banks (so much so that the secretary of the Department of Agriculture recently proposed a separate financing program for livelihood projects in the coconut sector.

Without discounting the possible use of other policy instruments (such as commodity price stabilization programs), an obvious program to reduce the exposure to risks of coconut growers is labor-intensive public works. It would not only smooth income streams of the very poor workers during the lean seasons, but also put in place the infrastructure needed to improve the linkages to product and labor markets in urban areas. This can go a long way towards reducing the barriers to income and risk diversification (i.e., inter-cropping) of households and communities. Conceivably, households and community organizations with more diversified income sources will also acquire an enhanced ability to tap bank credit for their investment needs. The source of funding will always be an issue, but because the fluctuations in the coconut sector do not necessarily follow the fluctuations in the rest of the economy, this is less of a problem than in the case of public works designed to respond to a generalized slowdown of the economy.

Source: interviews with Mr. Eduardi Escueta, administrator, and Mr. Ruel Rosales, department manager, Operations Planning Department, Philippine Coconut Authority.

require only limited funding (for example, only for workers employed in the farming of specific agricultural crops hit by a drought, typhoon or other natural calamity). Second, the cyclicality of the workload in some mono-crop areas (coconut farms, for example) allows labor to be very cheaply deployed in non-farm activities in the non-peak period. Appropriately timed public works provide an opportunity to productively engage this temporary "surplus" labor. And third, there are some institutional features that may prove instrumental in fostering the use of "labor based equipment supported" (LBES) methods of public works, the method which helps increase the program gains to the poor. (These features are discussed in the subsection below.)

Arguments against public works. There are also some features of public works that make them less suitable as a poverty reduction tool. First, high non-wage costs reduce the effectiveness of public works spending in reaching the poor, as the cost of providing income to the poor may be substantial. (For example, Ravallion [1999] estimates that for $1 of additional earnings of the poor, $5 of public transfers are needed, partly also because of the leakage of the spending to the non-poor). Second, the countercyclical pattern of funding shows that it is difficult to raise funding during crises when the support is needed most (Wodon, 2000). Third, there may be problems with the maintenance of the infrastructure built via public works.

Implementation issues. In the Philippines, public works programs have suffered from various problems. First, wage levels have been set too high (compare also Subbarao et al, 1996). Setting the wage at two-thirds of the wage in the nearest city (as in the Argentinean Trabajar) is much simpler than relying primarily on the bidding process for small contracts and on the *pakyaw* system (more on this below) itself to discourage the non-poor participants. Second, there have been no well-designed, demand-driven mechanisms of allocation of public works[23]. Allocation depended neither on counterpart mobilization of local resources nor on targeting of geographic or sectoral poverty and vulnerability. Admittedly, the

[23] An important lesson from schemes requiring counterpart funds from local governments is that poorer municipalities that do not have the cash for capital investment purposes can be inadvertently excluded from the scheme. This has been the experience, for instance, in the ongoing Agrarian Reform Communities Development Project of the World Bank and in a 1999-2000 road cost-sharing scheme between the league of municipalities of the Philippines and the Department of Public Works and Highways. In the latter, at least 17 municipalities were not able to access the P1 million allocated for them because the municipality could not put up the counterpart fund. Demand-driven schemes will need to have loan facilities and schemes for non-cash counterpart resources.

Kabuhayan program (during 1994-96) of the Ramos administration was supposed to target the so-called poorest 19 provinces and the fifth and sixth class towns. [24] However, the regional budget allocations for infrastructure did not bear this out (Subbarao et al, 1996). Large allocations were made for the National Capital Region and the adjacent, rapidly urbanizing regions (Central Luzon and Southern Tagalog). These regions account for a large share of the population but, with the exception of the Southern Tagalog Region, contribute the least to aggregate poverty. Southern Tagalog is the only major region – both in terms of its population and poverty share – that received a large share of financial commitment from *Kabuhayan 2000*.

Before *Kabuhayan 2000*, the other major effort to increase labor absorption through rural infrastructure was the Community Employment and Development Program (CEDP) from 1986 to 1988. The program's aim was to create employment opportunities for an estimated 1.2 million workers by the end of 1988. The program suffered many delays in project implementation arising from slow funding and disbursement procedures and distortion of priorities in project selection because of political pressures (Balisacan in Quibria 1996). Still, the program achieved quite favorable results. A large portion (54 percent) of the workers hired under the program were unemployed before the CEDP. Fifty-four percent reached by the programs also had monthly incomes below the food threshold, while 82 percent had monthly incomes below the poverty threshold. Seventy-eight percent of the workers also came from the project areas rather than being brought in from outside by contractors (results of a survey of 11,086 workers by the National Economic Development Authority, 1988). Although some of the elements of a successful public works scheme were not present (see box 4.5 below), the emphasis on small-scale, and therefore unmechanized, infrastructure projects accounts for the success of the program in reaching the poor. Small-scale projects accounted for 70 percent of the total fund allocation of P9.1 billion or roughly 90 percent of the approximately 53,000 projects supported by the program.

[24] The method used in identifying the poorest provinces is based on the poverty incidence, ignoring differences in the depth of poverty among the provinces. There was later a government shift from selective provincial targeting in the Ramos government's poverty alleviation efforts (PAF-1) to nationwide municipal targeting in PAF-2. Provinces were allotted funds based on the number of low class municipalities. According to Reyes and del Valle (1998), this resulted in provinces with varying magnitudes of poverty accorded equal funds on the basis of having the same number of low class municipalities.

Engineers at the Department of Public Works and Highways qualify this past success by noting that emphasis on job creation in the Community Employment and Development Program in the late 80s resulted in very poor quality for many of the projects.[25] They also believe, however, that the Department has recently acquired a much greater organizational capacity in terms of engineers trained in labor-based technologies, so that the trade-off between the quality and cost-effectiveness of job-creating pubic works would disappear.

Box 4. 5

A. Key design elements of a successful public works scheme : Argentina's Trabajar program

In Argentina's Trabajar program, the use of labor-intensive approaches is enhanced through incentives to local governments rather than through instructions to contractors and engineers. Trabajar allocates funds across provinces based on the distribution of the unemployed poor. Proposals to use the funds are made by municipalities and non-government organizations. These proposals are approved at the regional level, based on a system of points related to poverty in the area and the merits of project. The central government pays for the costs of unskilled labor and the sponsoring local units pay for the equipment, materials, and the skilled labor. The wage of the unskilled labor is set at two-thirds of the average wage for the poorest decile in the capital city. In principle there are no restrictions on the eligibility of beneficiaries to participate in the program, but in practice there is rationing. The financing of the Trabajar program as a matching grant scheme does not only induce local governments to make use of more labor; it also induces local governments to commit to the project.
(*Source: de Ferranti et al [2000]*)

B. Modifications of cost-sharing rules along the lines of the Trabajar program

The application of the *Trabajar* cost-sharing approach to schemes such as that P1.5 billion cost-sharing scheme being jointly implemented by the league of mayors (LMP) and the DPWH is straightforward. In operational terms, this means that the national government counterpart will pay the mobilization costs and contract fees of the labor-intensive *pakyaw* gangs. Such an approach allows for an additional inducement for local governments to learn and promote labor-based methods of civil works construction.

Simply put, the national government subsidy will not be accessible except where labor-based technologies are used as indicated by the mobilization of *pakyaw* gangs. This will promote the more intensive employment of labor not only through the choice of technology but also through the choice of project types – e.g., priority to the maintenance and repair of feeder roads in remote areas instead of all-weather roads in town centers. One political economy consideration of this proposal will, however, need to be made explicit: whereas the LMP-DPWH cost-sharing scheme provides each municipality with a flat P1 million budget as long as local officials can mobilize the designated counterpart finance, there will be no such equal sharing of national funds in the proposed alternative scheme. Perhaps within certain set limits – say, by using vulnerability indicators and municipal poverty shares based on existing proxy, census-based indicators -- a municipality's ability to "fetch" financing from the national government will have to depend not on its ability to put up counterpart funds, but on its ability to identify civil works that will be using *pakyaw* groups. A financing mechanism such as the P5 billion a year Local Government Service Equalization Fund[1] (LGSEF) can be tapped for sustaining and scaling up such a program.

[25] Interview with Engineer Constante Llanes of the DPWH Labor-Based Unit.

Ensuring self-selection into public works scheme by the poor

a) The pakyaw system. The need to comply with minimum compensation standards is the most important consideration in wage determination for public works schemes in the Philippines such as CEDP and BRW rural works program (Subbarao et al, 1996). This makes it difficult to use self-selection through low wages as a mode of targeting income transfers to the poor. Moreover, "patronage hiring" – mayors acting as gate keepers to job opportunities – is a prevalent practice among local chief executives. In this setting, public works schemes can deteriorate into modes of rewarding political supporters, especially where a high compensation level attracts even the non-poor.

The micro institutional framework of the traditional mode of contracting for most small civil works schemes – *pakyaw* system – in the Philippines may give policymakers reason for being hopeful about the prospect of public work schemes in the Philippines. It is a system where, potentially, competitive pressures can bid the compensation down.

The *pakyaw* system is a traditional system of implementing civil works in instances where manual labor is a major component. *Pakyaw* groups are formed when project facilitators convene community meetings with the assistance of *barangay* leaders. People known to be unemployed and underemployed are encouraged to attend these meetings and receive briefings on the prospective projects. The *pakyaw* groups provide only labor so there are no capitalization requirements that need to be hurdled. The system has been employed by the Department of Public Works and Highways for the implementation of labor-based projects since 1987. It is the organizational interface where public agencies tasked with implementing labor-based public works recruit the unemployed and underemployed workers in a community

Pakyaw, or task rate system, is an institutional form that has the potential of linking pay to labor productivity and prevailing local wages rather than mandated minimum wages. Under the *pakyaw*, workers involved in public works projects are not paid directly by the government agency but by the *pakyaw* leader or small contractor. The compensation is not based on the number of hours worked, but on the basis of tasks performed towards the completion of a group task. The *pakyaw* system is therefore not a time-based, but a productivity-based compensation scheme. Where *pakyaw* groups are selected on the basis of competitive bids for public works tasks, the compensation to be received by the laborers will tend towards the prevailing local wages for unskilled local workers. In cases when the contract is merely assigned to a *pakyaw* group, it may turn out that the task-based rates could be very generous and attractive even to the non-poor. To improve incentives, in such cases implicit wages should be set at less than the official minimum so that only the poor are recruited. (Incidentally, the *pakyaw* system is also a direct method for implementing the law requiring the hiring of local labor for public works.)

Note, however, that the *pakyaw* system is used only for projects directly administered and implemented by the engineers and field staff of public infrastructure agencies. When hiring contractors, the government loses the institutional handles for ensuring LBES technology, it can not ensure that laborers will be local hires.

b) Cost-sharing. One way around the requirement of providing minimum wages to workers, as well as to ensure that projects yield large social benefits, is via cost-sharing by communities that will benefit from the infrastructure. The local government and the national government contribute funds for the materials, and the local residents contribute either labor or a pledge to pay a volarizacion charge for future maintenance work. If conceived in this manner and organized by local governments as being just another manifestation of *bayanihan*, then it might indeed become feasible to target the poor.[26] Note, however, that the *Trabajar* program's approach to mobilizing local counterpart may be superior to those existing in the Philippines (e.g., the BRW rural works program). A slight modification in the BRW design of counterpart finance entails national government financing of only the cost of unskilled labor, instead of partially financing both the skilled and unskilled labor component of the project (similar modifications could be done with other existing public works programs – see box 4.5b). As a consequence, the allocation of infrastructure funds will also increasingly be demand-driven.

Special design elements for public works in the Philippines

a) *Emergency rural works programs.* Such a program should be an essential part of the government's repertoire for crisis management, especially where agricultural livelihoods are affected by calamities that regularly visit the country. The fast-

[26] "Bayanihan" in Filipino commonly refers to collective mutual support in rural communities whether in the repair of irrigation ditches, harvesting of rice before the rains, or in the festive act of men lifting a small house onto their shoulders and moving it from one location to another.

disbursing contingency calamity funds of national and local chief executives may be ideal vehicles for implementing this approach. An important reform, in line with the ongoing decentralization scheme, is to develop the mechanism for the direct release of road maintenance funds to local governments. Needless to say, fund availability is but one of the important ingredients of such a program.

b) *Special grants for hard-to-reach areas.* In some areas where the social preparation needed is unavailable, or where the local government is known to be incapable of mobilizing counterpart finance for other components of project cost, the government can provide unconditional grants. Such local governments eligible for grants can be listed and ranked nationally based on multidimensional indicators of susceptibility to risk and financial need.

4.6 Livelihood (self-employment) programs

Description. Livelihood programs create employment opportunities for the poor and marginal groups by offering them various services and, above all, access to credit. Evidence shows that the poor generally do not have access to bank loans, and when they resort to informal lenders, they face exorbitant interest rates (Lamberte et al, 1999). In addressing chronic failures in the financial markets, livelihood programs provide credit access to family and community-based enterprises using non-government organizations as conduits to the beneficiaries. From the perspective of income support for the unemployed and underemployed, the key characteristic of livelihood programs is that they are not unconditional, direct income transfers to the poor. As with some other programs (such as public works and training), the targeting of assistance is mediated by the effort of the beneficiary that reveals the need for the income transfer.

In the Philippines, livelihood programs have become one of the cornerstones of the strategy of helping the poor. In 1997, according to a survey conducted by the Credit Policy Improvement Program, there were a total of 86 government-managed credit programs directed to the poor. In 1995 the "Strategy to Fight Poverty in the Philippines" prepared by the World Bank reports that the Philippine government had P 31 billion ($1.2 billion) available for poverty lending, representing the combined resources of 111 government credit programs implemented by 19 government agencies. The variety of programs is impressive. The administration of Joseph Estrada continued to consider credit for livelihood programs an important component of the anti-poverty strategy. One of the four key programs of its National Anti-Poverty Commission was an annual fund of P500 million intended to finance credit for livelihood programs of the poorest families in each province.

Arguments in favor of the program. Well-designed and properly targeted livelihood programs have the possibility of reaching the unemployed poor – self-employment is indeed an important destination of the unemployed poor. Livelihood programs such as the Department of Social Welfare and Development (DSWD) SEA-K create incentives for group savings and increase the perspective of beneficiaries to graduate into the formal financial sector. Such programs therefore provide important vehicles for poor workers to self-insure. Another channel through which credit reduces household vulnerability is through income- and consumption-smoothing. This occurs through the creation of non-farm sources of income as well as by saving part of the loan disbursed for the lean season.

One important advantage of community-based schemes (such as the Grameen replications) is a superior utilization of information. Such schemes are capable of assisting in income- and consumption-smoothing through a transfer of income to the unemployed without the perverse disincentives to work effort created by UI or UA, and without hampering the self-protection mechanism by the beneficiaries. This is because the community and family networks are able to use the local information to identify prospective participants to whom access to the program is most important. Moreover, they are able to detect moral hazard problems – and they are also able to prevent them by deploying appropriate disciplinary measures such as ostracism and milder forms of peer pressure (e.g., possible exclusion from membership in a *pakyaw* group when opportunities for employment in public works come along). The administrative apparatus of the state has only highly imperfect and expensive substitutes to such mechanisms.

Arguments against the program. Profitability and employment creating ability of livelihood programs may fail in depressed regions. In regions far from urban centers, workers who lose their jobs and – through livelihood programs – take work in the informal non-farm, non-factory sector only rarely earn enough to keep families above the poverty line. In such areas, livelihood programs are not effective and there is scope for introducing other public programs.

Various evaluations cited by Subbarao et al (1996) also point to several weaknesses suffered by livelihood programs. Except for the programs of the Department of Social Welfare and Development (DWSD) as well as various government-supported initiatives to replicate the famous Grameen Bank model of Bangladesh, most programs do not reach the ultra-poor, are not financially sustainable because of very low repayment rates, and do not have a capacity to sustain the creation of employment. The same report shows that politicians are known to have had a significant influence in choosing beneficiaries of past programs which had been implemented through the line agencies of the government (rather than through government financial institutions), contributing to large leakages of these programs.

Under the Estrada administration, even the DSWD's highly regarded Self–employment Assistance program (SEA-K) was unable to avoid the pressure to give legislators the discretion in the choice of beneficiaries. The flagship credit program for the 100 poorest families of the National Anti-Poverty Commission (selected from the four or five poorest municipalities of a province by town mayors) was supposed to use credit cooperatives as conduits for a P500 million annual loan program. However, more than half of the conduits and beneficiaries of this program were identified at the discretion of congressional representatives and senators. For several years now there have been attempts to rationalize credit programs and to remove their management from non-financial government institutions.

Recently, Lamberte et al (1999) conducted an empirical survey assessing the viability of government-directed credit programs using the criteria of outreach to the poor and other targeted sectors and financial sustainability. Their results show that these programs have not generally performed well. For many non-financial government agencies that decided to be involved in credit programs, the expected result did not materialize despite their seeming natural advantage over banks due to their close working relations with their intended clientele. It became clear from these studies that programs implemented by government line agencies performed worse than programs overseen by government financial institutions such as the Land Bank and the Development Bank of the Philippines. President Estrada recently signed an executive order transferring the management of all such programs to government financial institutions.

5. Conclusions And Policy Implications

The present study made an attempt at evaluating existing income support programs for the unemployed in the Philippines, as well as programs used for this purpose in other countries. It provided a systematic survey of both arguments in favor of and against a certain program. By placing the discussion in the framework of general risk management, effort was made to adopt a holistic view and treat income support systems for the unemployed in the wider context of other formal and informal mechanisms of social risk management. In this connection, particular attention was devoted to the interconnection between unemployment support programs and the financial and, above all, the labor market, the latter being of utmost importance for enhancing the self-protection capacity of individuals and households.

In the Philippines, as well as in the context of others country, the question of choosing the right public income support program for the unemployed is a multifaceted one that involves, among other things, the following important considerations:

1. How well does the program respond to a country's income shocks that individuals, households and communities are especially ill-prepared to deal with, such as economic recessions, structural imbalances caused by liberalization and globalization, and shocks arising from natural calamities?
2. How well does the program fit into existing informal, as well as formal, market-based mechanisms of risk management? For example, would its introduction disrupt existing self-protection mechanisms, or displace existing coping mechanisms (such as an existing system of private transfers, especially for the non-poor population) that may have superior efficiency properties to public programs? Is the program well attuned to the prevailing norms and culture? Are there existing institutions that can be "upgraded" to provide better protection and increase the coverage?
3. Is the program compatible to other public support mechanisms and policies? Above all, does it promote labor reallocation and job creation as sources of productivity growth – which certainly is a superior risk-prevention strategy?
4. And last and certainly not least, is the program well attuned to local circumstances so that the program itself functions well? For example, can it be supported with the

existing administrative capacity of the country? Are there mechanisms that allow effective ways of program selection?

Based on the discussion of the alternative programs above, it is clear that all programs have some advantages and disadvantages – and that in choosing among them, there is no superior or unambiguous measuring device. A multiplicity of programs and flexibility of their use will most likely suit the country better than relying on only one program. Having said that, we would like to draw the attention of the policymakers to an approach that could enhance income protection for the unemployed, as well as foster unemployment risk prevention mechanisms. It is a two-prong approach, consisting of:

1. *Individual savings accounts* – either as unemployment insurance savings accounts (UISA), or comprehensive savings accounts covering other contingencies (such as education, health, housing, and old age) as well. This direction seems to be supported with a natural course of institutional development, is well attuned to the prevailing culture, is not administratively too complex, and offers potentially superior efficiency properties.
2. *Public works*. We suggest to explore the possibilities of the enhanced use of public works programs – particularly those relying on labor-based, equipment-supported technology. For workers who have little other means to insure against the unemployment risk, access to a public income support program based on self-selection could be very beneficial. But current weaknesses of these programs (for example, absence of self-selection based on low wages and failure to promote demand-driven mechanisms of allocation of public works via mobilization of counterpart resources) should be eliminated, and new incentive structure introduced, as described above. The more widespread adoption of labor-based approaches will hinge not just on training more engineers but on the ability of reforms to address very specific institutional impediments (such as making fund disbursement for labor-based public works before the wet season, and widening of opportunities for small contractors to participate in public works).

Little is known about the possibility of implementing unemployment insurance accounts for wage-workers in non-regular employment. The problem is not one of administrative feasibility because employers can remit the amounts to the workers' accounts and the workers will have the ability to monitor such accounts (as SSS members now do). Rather, the program design elements will have to address the non-regular workers' high discount rate, given that they are mostly poor or near-poor. If there is a high social benefit associated when poor workers are able to save for future contingencies, it may well be worth providing non-regular workers above-market interest rates for savings that they are able to accumulate. If it is deemed desirable that they purchase other market-provided insurance out of such savings, that too can be directly subsidized.

Until key administrative constraints are removed, and until stakeholders reach a consensus about the costs they are willing to bear, other competing options discussed in section four seem to be less feasible. Surely, the attractiveness of other programs may increase when the formal sector expands, which will make present financial and administrative obstacles less important.

REFERENCES

Alba, M. and E. Esguerra (1999): "Estimating the modes of labor force participation in the Philippines," Discussion Paper No. 9903, University of the Philippines, School of Economics.

Balisacan, A. (1999): Poverty Profile in the Philippines: An Updated Re-examination of evidence in the Wake of the Asian Crisis. University of the Philippines, processed.

Balisacan, A.and R. Edillion (July 1999): "Human Face of the Asian Crisis: What Do Nationwide Panel Data Philippine Households Show?" Paper presented at the national conference of the Political Science Association. Bahay Kalinaw, University of the Philippines, Diliman, Quezon City.

Blanchard, O. and J. Wolfers (1999): "The Role of Shocks and Institutions in the Rise of European Unemployment: The Aggregate Evidence." NBER Working Paper No. 7282.

BLES (1998): 1998 Yearbook of Labor Statistics, Department of Labor and Employment .

BLES (2000): Current Labor Statistics, Bureau of Labor and Employment Statistics. Department of Labor and Employment. Second Quarter 2000.

Boeri, T. (1997): Labor Market Reforms in Transition Economies. Oxford Review of Economic Policy, Vol.13, No.2, pp. 126-135.

Cox, D. and E. Jimenez (1995): "Private Transfers and the Effectiveness of Public Income Redistribution in the Philippines." Ind D. van de Walle and K. Nead, eds., *Public Spending and the Poor: Theory and Evidence*. Baltimore: Johns Hopkins University Press.

Cortazar, R. (1996): "Sharing Risk in Volatile Labour Markets." In R. Housmann, and H. Reisen, eds., *Securing Stability and Growth in Latin America, Policy Issues and Prospects for Shock-Prone Economics.* Paris: OECD.

de Dios Emmanuel S., Benjamin Diokno, Raul Fabella, Felipe Medalla and Solita Monsod (1997):"Exchange Rate Policy: Recent Failures and Future Tasks" in Public Policy. October/December 1997.

de Ferranti, Guillermo E. Perry, Indermit S. Gill, Luis Servén, with Francisco H.G. Ferreira, Nadeem Ilahi, William F. Maloney, Martin Rama (2000): "Securing our Future in a Global Economy."World Bank Latin American and Carribean Studies, Viewpoints.

Fachamps, Marcel and Susan Lund (1997): Risk-sharing Networks in Rural Philippines. Manuscript. Mansfield College, Oxford University and Department of Economics, Stanford University, processed.

Feldstein, M. and D. Altman (1998): "Unemployment Insurance Savings Accounts." NBER Working Paper No. 6860.

Haffner, R., S. Nickell, G. Nicoletti, S. Scarpetta and G. Zoega (1999): European Integration, Liberalization and Labour Market Performance. Paper presented at the conference "Unemployment and Welfare in the United States of Europe," Genoa, July 3, 1999.

Hazell, P., C. Pomaseda and A. Valdez (1986): Crop Insurance for Agricultural Development: Issues and Experiences. Baltimore: Johns Hopkins Press.

Heckman, J.J. and C. Pages (2000): "The Cost of Job Security Regulation: Evidence from Latin American Labor Markets." NBER Working Paper No. 7773.

Holmlund, B. (1998): "Unemployment Insurance in Theory and Practice." *Scandinavian Journal of Economics* 100: 113-141.

Holzmann, R. and S. Jorgensen (2000): Social Protection Sector Strategy: From Safety Net to Spring Board. HDNSP, World Bank, processed.

ILO (2001): Facts and Preliminary Considerations for the Feasibility of Introducing an Employment Insurance System in the Philippines. Paper presented at the conference "Seminar on Labour Market Policies: Its Implications to East and Southeast Asia", Manila, Mar 1-2, 2001.

Kugler, A. (2000): "Severance Payments Savings Accounts: Evidence from Colombia." Universitat Pompeu Fabra, processed (prepared for the World Bank).

Lamberte, Casuga and Erfe (1999): "Credit Programs for the Poor: A Tale of Two Studies" Policy Notes, June 1996. Philippine Institute for Development Studies.

Lazear, E.P. (1990): "Job Security Provisions and Employment," *Quarterly Journal of Economics* 105(3): 699-726.

Lora, E. and M. L. Henao (1997): "The Evolution and Reform of Labor Markets in Colombia," in Sebastian Edwards and Nora Lustig, eds.,*Labor Markets in Latin America: Combining Social Protection with Market Flexibility*, the Brookings Institution Press.

Manasan, R. (2000): Design of a Monitoring System for Poverty Alleviation Programs and Projects: Data Analysis and Computerization, July, 68 pages. Manuscript prepared for the UNDP-assisted project on "Strengthening Institutional Mechanisms for the Convergence of Poverty Alleviation Efforts.

Ofreneo, R. (2001): "Enhancing the Employment Facilitation Capacity of the PESO Network in an Economy in Transition" Draft of paper commissioned by the ILO, prepared for the WB-ILO-JMHLW-PDOLE-JIL-ASEM Seminar on Labour Market Policies held in Manila on March 1-2, 2001.

OECD (1999): *Employment Outlook.* Paris: OECD.

Quibria M.G. (1996): Rural Poverty in Developing Asia, Volume 2: Indonesia, Republic of Korea, Philippines and Thailand. Asian Development Bank.

Ravallion, M. (1999): "Appraising Workfare." *World Bank Research Observer* 14, February: 31-48.

Rosenzweig, M and H. Binswanger (1992): "Wealth, Weather Risk, and the Composition and Profitability of Agricultural Investments." The World Bank, .Policy Research Working Paper No.1055.

Stock, Elizabeth (1996): "Developing Successful Labor-Based Contractor Programs: Lessons from Ghana" October, Infrastructure Notes, The World Bank.

Stock, Elizabeth and Jan de Veen (1996): "Expanding Labor-Based Methods for Road Works in Africa" SSATP Working Paper no. 22. Economically Sustainable Development Division, Technical Department, Africa Region, The World Bank.

Subbarao, K., A.U. Ahmed, and T. Teklu (1996): "Selected Social Safety Net Programs in the Philippines. Targeting, Cost-Effectiveness, and Options for Reform." World Bank Discussion Paper No. 317, 72 p.

Terrell, K., M. Lubyova, and M. Strapec (1996): "Evidence on the Implementation and Effectiveness of Active and Passive Labour Market Policies in the Slovak Republic." Paper presented at OECD Workshop on Lessons from Labour Market Policies in the Transition Countries in Vienna, December 1995, Paris: OECD.

UNDP-ILO (1996): Social Protection in the Philippines: Options and Recommendations for Reform and Development (Report to the Government of the Philippines), 78 p.

Vodopivec, M. (2001): "Income Support Systems For The Unemployed: Issues And Options," The World Bank (HDNSP), processed, 140 pp.

Wodon, Q. (2000): *Poverty and Policy in Latin America and the Caribbean.* World Bank Technical Paper No. 46.

Vodopivec, M., A. Woergoetter and D. Raju (2001): "Unemployment Support In Transition Economies: Lessons Learned And Policy Options." The World Bank, HDNSP, processed, 43 p.

Vroman, W. (2001): "Unemployment Insurance and Unemployment Assistance: A Comparison." The Urban Institute, processed.

World Bank (2000): Philippines: Poverty Assessment. Volume I: Main Report., and Volume II, Technical Chapters.

Table 3.7: Social Safety Net Programs in Recent Years

	Average Annual Budget/ expenditure	Average yearly number of participants/ beneficiaries	Remarks
1. Public works*			
Labor-Based Equipment-Supported infrastructure Implemented through the Dept. of Public Works and Highway's labor-based units. Includes projects of the agrarian reform and agriculture departments and league of town mayors.	P10 billion	360,000	Refers only to *additional* jobs (of an average duration of one month 23 working days) that were created because labor-based, equipment supported technology was used. Source. Engineer Constante Llanes of Department of Public Works and Highways Labor-based Unit.
Dept. of Labor and Employment (Bureau of Rural Workers)	P21 million	5,302	Working an average of 18 days, figures refer to annual average from 1998 to 2000. Source are project reports from the Bureau of Rural Workers.
2. Livelihood/self employment/ entrepreneurship programs	P31 billion	251,861	P31 billion refers to credit available in 1995 through 111 directed credit programs. By 1997 there were only 86 such programs. Presumably the available credit also went down. The number of participants is an average of 1996 and 1997 figures reported by the Estrellita Asidao of the Bureau of Local Employment based on data from different agencies.
Examples:			
Department of Labor and Employment			
Department of Trade and Industry (NGO-Microcredit II)		15,060	
Department of Social Work and		43,677	
Community Development (SEA-K)		31,043	
3. Loans and grants to displaced persons (Emergency Loan Fund Program, etc)	P167 million	15,330	Figures refer to annual averages over three years. Source· Social Security System. The fund was P500 million and was disbursed from 1998 to 2000
4. Training			
• **Technical education and Skills Development Authority**	P1.03 billion	311,766	Refers to 1998 figures. Based on numbers provided by the Institute for Labor Studies.
• **Department of Labor and Employment****	P54.5 million	19,160	Averages for 1997 and 1998
5. Wage Subsidy (Special Program for the Employment of Students)	P110 million	96,557	Figures refer to 1998. Based on numbers provided by the Institute for Labor Studies.
6. Other poverty alleviation measures			
Rice subsidization, etc.	P400 million	NA	Figures refer to year 2000
"100 poorest families" Micro-credit program	P206 million	15,900 (families)	Originally, the total budget for this program was P500 million. More than half was converted ito congressional pork barrel. The rest was used for administrative overhead.

* The Bureau of Local Employment reports that in 1997, 480,834 people were employed for 230 days for all government infrastructure projects. The term "public works" is often used for any government infrastructure program.

** Retraining of Displaced Industrial Workers; Skills Training for Rural Non-Farm Productivity; Skills Training for Women in Export-Oriented Small and Medium Scale Enterprises; Skills Upgrading of Industrial Workers; and training for the Rural Works Program

Social Protection Discussion Paper Series

No.	Title
0204	Options of Public Income Support for the Unemployed in the Philippines and Social Protection by Jude H. Esguerra, Makoto Ogawa, and Milan Vodopivec
0203	Unemployment Insurance and Unemployment Assistance: A Comparison by Wayne Vroman
0202	Does Eurosclerosis Matter? Institutional Reform and Labor Market Performance in Central and Eastern European Countries in the 1990s. by Michelle Riboud, Carolina Sánchez-Páramo and Carlos Silva-Jáuregui
0201	Pension Reform and Capital Markets: Are There Any (Hard) Links? byEduardo Walker and Fernando Lefort
0131	Child Labor, Nutrition and Education in Rural India: An Economic Analysis of Parental Choice and Policy Options by Alessandro Cigno, Furio Camillo Rosati and Zafiris Tzannatos
0130	Social Protection and the Informal Sector in Developing Countries: Challenges and Opportunities by Sudharshan Canagarajah and S.V. Sethuraman
0129	Chile's Pension Reform After 20 Years by Rodrigo Acuña R. and Augusto Iglesias P.
0128	Labor Market Regulation: International Experience in Promoting Employment and Social Protection by Gordon Betcherman, Amy Luinstra, and Makoto Ogawa
0127	Generational Accounting and Hungarian Pension Reform by Róbert I. Gál, András Simonovits and Géza Tarcali
0126	Orphans and Other Vulnerable Children: What role for social protection? edited by Anthony Levine
0125	Child Farm Labour: The Wealth Paradox by Sonia Bhalotra
0124	What Can Be Done about Child Labor? An overview of resent research and its implications for designing programs to reduce child labor by Bjørne Grimsrud

Social Protection Discussion Paper Series continued

No.	Title
0110	A Review of Social Investment Fund Operations Manuals by Juliana Weissman
0109	Risk and Vulnerability: The Forward Looking Role of Social Protection in a Globalizing World by Robert Holzmann
0108	Australia's Mandatory Retirement Saving Policy: A View from the New Millennium by Hazel Bateman and John Piggott
0107	Annuity Markets and Benefit Design in Multipillar Pension Schemes: Experience and Lessons from Four Latin American Countries by Robert Palacios and Rafael Rofman
0106	Guide for Task Teams on Procurement Procedures Used in Social Funds by Jorge A. Cavero Uriona
0105	Programmes Actifs Pour Le Marche Du Travail: Un Aperçu General Des Evidences Resultant Des Evaluations by Zafiris Tzannatos and Amit Dar
0104	Kazakhstan: An Ambitious Pension Reform by Emily S. Andrews
0103	Long-term Consequences of an Innovative Redundancy-retraining Project: The Austrian Steel Foundation by Rudolf Winter-Ebmer
0102	Community Based Targeting Mechanisms for Social Safety Nets by Jonathan Conning and Michael Kevane
0101	Disability and Work in Poland by Tom Hoopengardner
0024	Do Market Wages Influence Child Labor and Child Schooling? by Jackline Wahba
0023	Including the Most Vulnerable: Social Funds and People with Disabilities by Pamela Dudzik and Dinah McLeod

Social Protection Discussion Paper Series continued

No.	Title
0022	Promoting Good Local Governance through Social Funds and Decentralization by Andrew Parker and Rodrigo Serrano
0021	Creating Partnerships with Working Children and Youth by Pér Miljeteig
0020	Contractual Savings or Stock Market Development. Which Leads? by Mario Catalan, Gregorio Impavido and Alberto R. Musalem
0019	Pension Reform and Public Information in Poland by Agnieszka Chlon
0018	Worker Reallocation During Estonia's Transition to Market: How Efficient and How Equitable? by Milan Vodopivec
0017	How Poor are the Old? A Survey of Evidence from 44 Countries by Edward Whitehouse
0016	Administrative Charges for Funded Pensions: An International Comparison and Assessment by Edward Whitehouse
0015	The Pension System in Argentina: Six years after the Reform by Rafael Rofman
0014	Pension Systems in East Asia and the Pacific: Challenges and Opportunities by Robert Holzmann, Ian W. Mac Arthur and Yvonne Sin
0013	Survey of Disability Projects. The Experience of SHIA, Swedish International Aid for Solidarity and Humanity by Kaj Nordquist
0012	The Swedish Pension Reform Model: Framework and Issues by Edward Palmer
0011	Ratcheting Labor Standards: Regulation for continuous Improvement in the Global Workplace by Charles Sabel, Dara O'Rourke and Archon Fung
0010	Can Investments in Emerging Markets Help to Solve the Aging problem? by Robert Holzmann

Social Protection Discussion Paper Series continued

* The papers below (No. 9801-9818 and 9901-9934) are no longer being printed, but are available for download from our website at www.worldbank.org/sp

Social Protection Discussion Paper Series continued

No.	Title
9931	Uncertainty About Children's Survival and Fertility: A Test Using Indian Microdata by Vincenzo Atella and Furio Camillo Rosati
9930	Beneficiary Assessment of Social Funds by Lawrence F. Salmen
9929	Improving the Regulation and Supervision of Pension Funds: Are there Lessons from the Banking Sector? by Roberto Rocha, Richard Hinz, and Joaquin Gutierrez
9928	Notional Accounts as a Pension Reform Strategy: An Evaluation By Richard Disney
9927	Parametric Reforms to Pay-As-You-Go Pension Systems by Sheetal K. Chand and Albert Jaeger
9926	An Asset-Based Approach to Social Risk Management: A Conceptual Framework by Paul Siegel and Jeffrey Alwang
9925	Migration from the Russian North During the Transition Period by Timothy Heleniak
9924	Pension Plans and Retirement Incentives by Richard Disney and Edward Whitehouse
9923	Shaping Pension Reform in Poland: Security Through Diversity by Agnieszka Chlon, Marek Góra and Michal Rutkowski
9922	Latvian Pension Reform by Louise Fox and Edward Palmer
9921	OECD Public Pension Programmes in Crisis: An Evaluation of the Reform Options by Richard Disney
9920	A Social Protection Strategy for Togo by Regina Bendokat and Amit Dar
9919	The Pension System in Singapore by Mukul G. Asher

Social Protection Discussion Paper Series continued

No.	Title
9918	Labor Markets and Poverty in Bulgaria by Jan J. Rutkowski
9917	Taking Stock of Pension Reforms Around the World by Anita M. Schwarz and Asli Demirguc-Kunt
9916	Child Labor and Schooling in Africa: A Comparative Study by Sudharshan Canagarajah and Helena Skyt Nielsen
9915	Evaluating the Impact of Active Labor Programs: Results of Cross Country Studies in Europe and Central Asia by David H. Fretwell, Jacob Benus, and Christopher J. O'Leary
9914	Safety Nets in Transition Economies: Toward a Reform Strategy by Emily S. Andrews and Dena Ringold
9913	Public Service Employment: A Review of Programs in Selected OECD Countries and Transition Economies by Sandra Wilson and David Fretwell
9912	The Role of NPOs in Policies to Combat Social Exclusion by Christoph Badelt
9911	Unemployment and Unemployment Protection in Three Groups of Countries by Wayne Vroman
9910	The Tax Treatment of Funded Pensions by Edward Whitehouse
9909	Russia's Social Protection Malaise: Key Reform Priorities as a Response to the Present Crisis edited by Michal Rutkowski
9908	Causalities Between Social Capital and Social Funds by Jesper Kammersgaard
9907	Collecting and Transferring Pension Contributions by Rafael Rofman and Gustavo Demarco
9906	Optimal Unemployment Insurance: A Guide to the Literature by Edi Karni

Social Protection Discussion Paper Series continued

No.	Title
9905	The Effects of Legislative Change on Female Labour Supply: Marriage and Divorce, Child and Spousal Support, Property Division and Pension Splitting by Antony Dnes
9904	Social Protection as Social Risk Management: Conceptual Underpinnings for the Social Protection Sector Strategy Paper by Robert Holzmann and Steen Jorgensen
9903	A Bundle of Joy or an Expensive Luxury: A Comparative Analysis of the Economic Environment for Family Formation in Western Europe by Pierella Paci
9902	World Bank Lending for Labor Markets: 1991 to 1998 by Amit Dar and Zafiris Tzannatos
9901	Active Labor Market Programs: A Review of the Evidence from Evaluations by Amit Dar and Zafiris Tzannatos
9818	Child Labor and School Enrollment in Thailand in the 1990s By Zafiris Tzannatos
9817	Supervising Mandatory Funded Pension Systems: Issues and Challenges by Gustavo Demarco and Rafael Rofman
9816	Getting an Earful: A Review of Beneficiary Assessments of Social Funds by Daniel Owen and Julie Van Domelen
~~9815~~	This paper has been revised, see Discussion Paper No. 9923
9814	Family Allowances by Suzanne Roddis and Zafiris Tzannatos
9813	Unemployment Benefits by Zafiris Tzannatos and Suzanne Roddis
9812	The Role of Choice in the Transition to a Funded Pension System by Robert Palacios and Edward Whitehouse
9811	An Alternative Technical Education System: A Case Study of Mexico by Kye Woo Lee
9810	Pension Reform in Britain by Edward Whitehouse

Social Protection Discussion Paper Series continued

No.	Title
9809	Financing the Transition to Multipillar by Robert Holzmann
9808	Women and Labor Market Changes in the Global Economy: Growth Helps, Inequalities Hurt and Public Policy Matters by Zafiris Tzannatos
9807	The World Bank Approach to Pension Reform by Robert Holzmann
9806	Government Guarantees on Pension Fund Returns by George Pennacchi
9805	The Hungarian Pension System in Transition by Robert Palacios and Roberto Rocha
9804	Risks in Pensions and Annuities: Efficient Designs by Salvador Valdes-Prieto
9803	Building an Environment for Pension Reform in Developing Countries by Olivia S. Mitchell
9802	Export Processing Zones: A Review in Need of Update by Takayoshi Kusago and Zafiris Tzannatos
9801	World Bank Lending for Labor Markets: 1991 to 1996 by Amit Dar and Zafiris Tzannatos

Summary Findings

How can the income support for the unemployed Filipino workers be improved? The study analyzes both arguments in favor of and against each of the following programs: unemployment insurance, unemployment assistance, severance pay, unemployment insurance savings accounts, public works, and self-employment programs. In doing so, it addresses the following questions: How does a candidate program interact with other labor market institutions? Does the program respond to a country's income shocks such as recessions and natural disasters? Does the country have sufficient administrative capacity to carry out a program? Does the program fit into existing formal and informal mechanisms of social risk management? Is there a risk of disrupting or displacing existing mechanisms such as transfers between family members? Is the program attuned to the prevailing norms and culture?

The study concludes that all programs have certain advantages and disadvantages — an argument for the multiplicity of programs and flexibility of their use. Nonetheless, to enhance income protection for the Filipino workers, the paper proposes a two-prong approach, consisting of (i) the expansion of public works (particularly those relying on labor-based, equipment-supported technology), and (ii) the introduction of a new program — individual savings accounts, either as unemployment insurance savings accounts or comprehensive savings accounts covering other contingencies as well (such as education, health, housing, and old age).

HUMAN DEVELOPMENT NETWORK

About this series...

The World Bank Employment Policy Primer aims to provide a comprehensive, up-to-date resource on labor market policy issues. This resource is based on the lessons from research and operational experience in designing and implementing labor market policies and interventions. The primer series includes two types of products: primer papers that present, in some detail, new research results or up-to-date assessments of the literature and experience and primer notes that summarize "best practice" on policy-relevant topics in a very concise and accessible manner. Together, these products are intended to provide a practical tool-kit for people who make or are concerned about employment policy. A flexible format with products published both on our website and in published form ensures that the latest developments are reflected.

The Employment Policy Primer, including all papers and notes, can be accessed at the labor markets website at www.worldbank.org/labormarkets. For free copies of this paper, please contact the Social Protection Advisory Service, The World Bank, 1818 H St., N.W., MSN 8-802, Washington, D.C. 20433-0011. Telephone (202) 458-5267. Fax (202) 614-0471. E-mail: socialprotection@worldbank.org.