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EXECUTIVE SUMMARY

Government commitment to decisive action against the prospects of higher unemployment was underlined by the announcement in December 2001 of extensive measures to stimulate the private sector and to address specific problems in the labour market. The special measures announced were allocated an overall budget of 58 billion baht. The programme aims to counteract economic downturns and unemployment of the order of 3.8% in 2002. Within the overall programme the MOLSW has a number of specific measures, targeted at 900,000 workers and with a budget of almost 11.4 million baht. These policy and strategic steps provide clear perspectives for considering the introduction of unemployment insurance as another element in the policy framework for employment.

Unemployment insurance was adopted as an element in the social security system mandated by the Social Security Act 1990, but was excluded from the timetable for implementation of the separate branches of insurance. It was only when the Asian financial crisis of 1997 caused unemployment amongst all types of employees in the private sector that a better understanding of unemployment insurance developed. This was against the background of the manifest limitations of schemes relying on direct employer liability, such as severance pay, and of ad hoc projects needing external finance due to constraints on public expenditures imposed by the crisis itself. The social insurance principles of pooling risks and finances in autonomous funds came under consideration having already demonstrated their efficacy since the introduction of social health insurance and certain cash benefits in 1991 for modest contributions. Furthermore, studies undertaken by the ILO, amongst others, proposed that social protection against the consequences of unemployment should be strengthened. The studies also emphasised that modest and limited schemes could be introduced for much lower contributions (of the order of 2% of insurable earnings) than was generally realised.

Proposals were submitted by a representative Sub-Committee to the SSO Social Security Committee in September 2001 for the introduction of an unemployment insurance scheme. The proposals were based on the following:

- unemployment benefit should be payable after 7 waiting days, subject to contribution and labour market conditions, at the rate of 50 % of average insurable earnings for a maximum of 180 days in a period of 365 days, and
- the costs of benefits, employment services and skills training for the unemployed could be met by establishing a separate autonomous Unemployment Insurance Fund in SSO to receive a total contribution of 3% of insurable earnings.

This report provides the ILO perspective on these proposals in relation to the principles and standards prescribed in the relevant ILO Conventions¹ and also the recommendations made by ILO in 1998.²

¹ The Social Security (Minimum Standards) Convention (No. 102 of 1952) and the Employment Promotion and Protection Against Unemployment Convention (No.168 of 1988).

² Assessment of the feasibility of introducing an Unemployment Insurance Scheme in Thailand. ILO, Geneva 1998.

The fundamental policy concepts for unemployment insurance are (a) that it should be part of an extensive system operating within the framework of a suitable macro-economic policies and (b) that it should be part of a comprehensive employment strategy for the promotion of economic development and the creation of employment. The unemployment scheme should be designed as a component in a system, together with upgraded employment services and skills training programmes, with the primary purpose of re-employing the unemployed in suitable jobs. The prospect of further globalisation of trade is also a factor in government policies formulated for a more volatile economic environment. This situation underlines the important role of an unemployment insurance scheme that closely links the unemployed to a proactive system for returning laid-off workers to employment through counselling, job matching, training schemes and forms of assistance to workers to undertake self-employment. A major aim should be to fully realise the potential of this system to contribute towards the adaptation of labour supply to demand as it evolves in a global economic environment.

One of the issues in unemployment insurance is the coverage of such schemes in countries with a small formal sector because this both limits its impact and tends to undermine efforts to prevent abuse by persons who claim benefit whilst working outside the scope of the scheme. The Government's decision to extend the social security scheme to enterprises with 1 or more workers from April 2002 is an important step which increases the feasibility of and justification for the introduction of the unemployment insurance scheme. Employees of these smaller enterprises suffer from less stable employment.

Close to 7 million workers³ will be protected by the scheme, which will be a major improvement, but this still leaves the majority of the labour force in need of other forms of social protection in the event of unemployment and underemployment. Considering the public expenditure commitments required for the development of unemployment insurance for the formal sector, there are significant economies of scale to be gained by also considering allocating corresponding resources to assist the non-insured unemployed. Various measures, such as labour-intensive public works projects and social protection schemes can be adopted after evaluation of the special programmes selected for 2002. With effective strategies to assist the non-insured, the introduction of the unemployment insurance scheme will not be seen as worsening disparities between the formal sector workers within the ambit of social insurance and those outside the statutory system of social protection.

The timing of the introduction of unemployment insurance and its affordability⁴ may give rise to some concerns. After the financial crisis in 1997 and 1998 it was apparent that some of the affected countries could have had modest and inexpensive schemes in place, able to play a part in coping with the high unemployment, together with many other measures and programmes. The question is whether countries considering unemployment insurance should wait for stable economic conditions, including low

³ according to the results of the extension of the social security scheme by mid-2002 but progress towards higher target figures is expected

⁴ At the date of preparation of this report, Government had not announced its intentions regarding participation in the financing of unemployment insurance. Chapter 7 analyses different possible approaches in this respect

unemployment. The Social Security Sub-Committee Report endorsed "the proposal that the scheme should be introduced in the period during which the economic situation is recovering". This viewpoint recognises that the most important aim should be to have a scheme implemented and ready before a crisis situation returns. In other words, waiting for a so-called ideal situation would be inadvisable.

The current contributions under the Social Security Act are due to revert, in January 2003, to their original levels. There has been a five year period of reduced contributions due to the economic crisis. As shown in Annex 4 of this report the full contribution rates are quite low in comparison with other Asean countries and have had minimal impact on the competitiveness of Thai industry. The restoration of the full rate may enable SSO to extend social health insurance to dependants of insured persons, which would be of considerable social importance in relation to government policies for universal health coverage. The addition of relatively low contributions for unemployment insurance (of the order of the 3% of insurable earnings) proposed by the Social Security Sub-Committee, may be considered to be sound social protection strategy. This is so irrespective of whether the contribution is to be shared between employers and workers or if Government also contributes, particularly if co-ordinated within a policy framework for development of social protection.

ILO undertook a financial valuation of the social security scheme in June 2002, including some sensitivity analyses, and also provided training to SSO in the use of the ILO Unemployment Insurance Model (UIM). Under the different scenarios analysed in Chapter 7, a contribution of 3% was found to be sufficient but is considered to be the maximum. Assumptions about the numbers of the unemployed who will be entitled to unemployment benefit (the beneficiary ratio) have significant impacts on the projections of costs falling on the Unemployment Insurance Fund. The valuation assumes 85 % as a safe figure compared with the worst case scenario adopted by the Sub-Committee. It is recommended that when final decisions are taken on estimates of beneficiaries, the costs of administration and other aspects, SSO should revise the financial valuation. The contribution should be adequate for all expenditures on benefit, administration and a full range of training programmes, including job-change training, which will ensure that Thai workers have opportunities to adapt to labour market requirements and the scheme plays its role in employment policies.

In this connection, a Working Group on Unemployment Insurance was considering in July 2002 a proposal that the government contribution to this scheme should be no more than 0.2%. There is some flexibility in respect to the estimation of benefit expenditures and it is therefore possible to adopt lower beneficiary ratios for costing purposes. Chapter 7.10 shows that a beneficiary ratio of about two-thirds would require a contribution of about 2%. In theory, 2.2 % could be selected as the initial contribution on the assumption of a beneficiary ratio of about 70% but this differs widely from the Sub-Committee's estimate and involves some risks in a largely unknown situation. For example, the extent of unemployment and its duration amongst the insured workers cannot be predicted precisely. Another point is that it is true to say that the unemployment insurance scheme stands or falls on the effectiveness of the employment services in assisting the claimants back into decent jobs, as under-performance may result in longer average duration of benefit. The financing of the unemployment insurance fund should be decided in conjunction with

the allocations of resources for the building-up of institutional capacities in employment services and the provision of training schemes. Even if adequate budgets are provided, it may be a few years before DOE and DSD have acquired all necessary expertise for their roles in the system. Consequently, it is advisable to consider the following proposals to better assure the prospect that this important and highly visible scheme will be able to meet its objectives:

- government should undertake to fully finance the development of employment services and training schemes within the timetable for the introduction of unemployment insurance;
- the government contribution to unemployment insurance should be set at 1% or not less than 0.50 for the first 3 years. A reduction, whether to 0.2% or a higher figure, should be dependent on the projections of the UIM from the actual experience of the scheme;
- the contribution ceiling should be increased as soon as possible and made subject to an automatic adjustment in relation to wage growth (section 7.8 shows that the benefit standards and contribution will be negatively affected if this ceiling remains unchanged);
- government should fully commit to underwriting the scheme with a guarantee to ensure solvency if heavier expenditures occurred until a higher contribution or adjustment of the key parameters could be implemented; and
- part of government savings from a lower contribution should be channelled into increased budgets for skills and job-change training and so reduce liabilities on the unemployment insurance fund by making its share correspondingly less.

This situation underlines the necessity of careful monitoring of income and expenditures and use of the UIM to ensure adequate financing and build-up of reserves or that other timely actions are taken to reduce expenditures and or increase the contribution.

On the issue of affordability, ILO recommends that the requirement for compulsory monthly contributions to the Employees Welfare Fund under the Labour Protection Act should be postponed indefinitely⁵. This legislation requires enterprises with 10 or more workers to contribute together with their employees 5% each of insurable earnings unless already operating a voluntary provident fund under the Provident Fund Act 1987. This is again endorsed in the interests of policy cohesion on the important issue of strengthening social protection of the unemployed, and the need to concentrate resources on the social insurance system of pooling risks and finances in autonomous funds. MOLSW has confirmed that it has no plans to collect these contributions.

Another issue is the balancing of unemployment insurance, severance pay, and voluntary provident funds since these measures are all designed to assist unemployed workers, as well as retirees in the case of the employment benefits. This requires consultations amongst the social partners on the basis of guidelines and options

⁵ Country Employment Policy Review. "Decent Work For All: Targeting Full Employment in Thailand." ILO/EASMAT August 2000.

discussed in Chapter 2 of this report. Whilst ILO stresses the importance of social dialogue to address this issue it also reiterates the recommendation for the establishment of a national Social Protection Co-ordination Commission. The task of such a body would be to advise on overall policy issues in the development of the social security system comprising the statutory social insurance scheme and supplementary schemes under labour legislation and others financed by companies, organisations and individuals.

Introduction of an unemployment insurance scheme may lead to concerns on the possible negative effects such as welfare dependency and a decline in self-reliance. The system's first objective therefore should be to return claimants to employment but to suitable jobs with acceptable conditions: in other words to "decent work" in ILO terminology. One key proposal in this report is that benefit claimants should submit their applications not to SSO but on registration with the ESO. They will then be advised on a systematic approach to job search activities and will be required to report at intervals on results. At present, significant numbers of redundant workers may not receive or be eligible for severance pay and have little option but to take the first job they can find despite low wages and inferior working conditions. Entitlement to unemployment benefit for up to 6 months will allow insured workers time to search for similar jobs, and, if necessary, to upgrade skills through training courses, in order to maintain their incomes and membership of social insurance schemes. Smoothing consumption through unemployment benefits strengthens the economy by maintaining adequate levels of consumer demand during periods of economic difficulties. However, a careful balance has to be struck between providing adequate subsistence levels of benefit and avoiding reductions in incentives to return to work as soon as suitable jobs are available. The proposed rate of 50% of average insurable earnings is consistent with the rates stipulated in ILO Conventions numbers 102 and 168.

In this connection, minimum wages can have a significant influence if effectively enforced. As explained in section 1.1.3 of this report in the third quarter of 1999 significant numbers of private sector workers earned less than minimum wages. This is despite the best efforts of MOLSW inspectors to improve enforcement of the Labour Protection Act. It is therefore proposed that:

- minimum wages rulings are subject to stronger enforcement for the benefit of those in work and to ensure that more jobs on offer to claimants are attractive enough;
- the Sub-Committee's proposal - that jobs offered by ESOs to beneficiaries qualify as suitable jobs if, in addition to other criteria, they provide at least the benefit rate of 50% of average earnings - should be revised so as to give incentives to workers to take the job (this aspect is discussed further in section 4.3.2);
- consideration should be given after a careful assessment of the first year of operation to offering a re-employment benefit of part of the remaining entitlement if the claimant finds work within 2 months of registration.

The Sub-Committee decided to start with an unemployment insurance scheme and to later develop this into an Employment Insurance Scheme (EIS) featuring job stabilisation schemes targeted at various special groups of workers and upgraded skills development programmes as well as unemployment benefits. The reasoning was

that the initial costs would be lower and that it will take time to develop a fully-fledged proactive system. This is a major policy guideline in view of the proposed reliance on active labour market policies (ALMPs) and it is advisable to plan the introduction of such measures within the framework of a comprehensive employment policy and the unemployment insurance scheme on a gradual basis within resource and feasibility limits. The effectiveness of the ALMPs should be closely monitored and evaluated so that they can be adapted as necessary. Development of an EIS should be kept under review as a future strategic aim in co-ordination with Government policies on employment, including the measures adopted to counteract economic downturns foreseen for 2002.

The proposals of the Sub-Committee give rise to a number of policy, legal, financial administrative and operational issues. This report addresses these issues and proposes suitable strategies for Thailand for consideration by the Government in the process of finalising the design of the unemployment insurance scheme and plans for its implementation. The draft report was submitted for consideration by ILO's tripartite constituents by means of an ILO/MOLSW Tripartite National Seminar on Unemployment Insurance held on 1 April 2002. The main findings and conclusions were (a) that Government, employers and employees are committed to the introduction of unemployment insurance and (b) that it is important to maintain the momentum in the planning of the implementation of this scheme so that it can be introduced as soon as the essential preparations are completed. The latter warrants high priority to ensure that delays can be avoided in successfully accomplishing this major strengthening of social protection in Thailand.

When government policies are formulated, ILO stands ready for further technical co-operation in this important sector of social, labour and employment policy in Thailand.

⁶ The Social Security (Minimum Standards) Convention (No. 102 of 1952) and the Employment Promotion and Protection Against Unemployment Convention (No.168 of 1988).

⁷ Thailand Assessment of the feasibility of introducing an Unemployment Insurance Scheme in Thailand. ILO, Geneva 1998.

⁸ At the date of preparation of this report, Government had not announced its intentions regarding participation in the financing of UI. Chapter 7 analyses different approaches in this respect.

⁹ Country Employment Policy Review. "Decent Work For All: Targeting Full Employment in Thailand." ILO/EASMAT August 2000.