

Income Support for the Unemployed: Options for the Philippines^{*}

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Abstract

This paper evaluates existing income support programs for the unemployed in the Philippines, as well as programs used for this purpose in other countries. It provides 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 is 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. Particular attention is 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.

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1. Introduction

Faced with job loss, Filipino workers employed in the formal sector rely primarily on severance pay for income support. Severance pay, however, is a claim that workers have found difficult to enforce. The government has also repeatedly introduced temporary loan assistance packages through the government-run pension systems in response to dramatic and uninsurable episodes of economic and environmental shocks. But those who have benefited from such programs are a minority. Little, if any, of these formal income support ever reach workers in non-regular employment. Majority of Filipino workers

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have thus relied greatly on informal modes of managing the income risk arising from unemployment: 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 through the receipt of private transfers, the sale of assets, withdrawal of children from school, and reducing consumption. Many of these mechanisms are costly, inefficient, and above all, seldom adequate.

This paper finds that income protection of the unemployed can be strengthened. The desirable directions include selective expansion and improvement of the design of some of the existing programs (such as public works, particularly those with intense use of labor, and some types of livelihood programs), as well as the introduction of new programs, such as unemployment insurance savings accounts or comprehensive savings accounts, which would increase the coverage of workers and contingencies covered. The study also explains why some other programs, which are widely used in developed countries (unemployment assistance, for example), may be less appropriate for countries like the Philippines.

The next section outlines a 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

From the standpoint of individuals, the primary purpose of such income support programs is to replace income due to job loss. This purpose subsumes consumption smoothing, as well as prevention of poverty. From the standpoint of the society, the objectives are wider and may include promoting distributive justice; encouraging economic restructuring and facilitating the reallocation of labor across sectors; and developing the capacity of communities to help their members.

Public income support programs are 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 becoming unemployed or of losing one's livelihood (ii) those that insure against or mitigate that risk and (iii) mechanisms for coping with and adjusting to the occurrence of undesirable states for which there happen to be no insurance or risk mitigation mechanisms. Within all three categories, both informal and formal mechanisms are usually available, with formal ones further divided into market-based and public (see Table 1).

Table 1. Income support systems for unemployed workers in the context of other mechanisms for managing risk*

<i>Arrangement Strategies</i>	<i>Informal</i>	<i>Formal</i>	
		<i>Market Based</i>	<i>Public</i>
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. Micro-finance 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.

Individual programs can be assessed for their distributive impacts and efficiency effects. The distributive impact relates to the extent of the coverage and adequacy of the income support. One judges the adequacy of a program by measuring replacement rates and its contribution to income smoothing by households and poverty reduction. The efficiency criteria asks whether or not a program results in higher output growth, intensified job-search effort, higher post-unemployment wages, the expeditious restructuring of enterprises, higher labor supply of other family members and a willingness to take on informal jobs. A program is also desirable if it remains viable in the face of a variety of economic shocks and is not easily undermined by political interference.

Finally programs can also be assessed in relation to their fit with "initial conditions" or country-specific circumstances that determine how programs will fare and interact with pre-existing and viable risk mitigation strategies. These initial conditions also refer to factors that increase unemployment risk typically faced by a country, the degree of informality of employment in the economy, and the administrative feasibility of otherwise desirable programs. The country's wealth is also a condition that affects the feasibility of implementing programs that require a high degree of redistribution.

3. Exploring country-specific conditions

A number of factors affect performance – and dictate the choice – of income support programs in the Philippines. These include the following: income and employment provisions of labor market legislation; the nature of unemployment and prevalence of the informal sector; inter-household transfers and the capacity of individuals for self-protection; and the availability of institutional capacity appropriate to the administration of a range of programs and for the screening of beneficiaries.

3.1 Regulations about employment and income stability

Regulations on hiring. The Philippines' labor code mandates regularization of an employee after six months of employment. While the intention of the law is to strengthen the attachment of workers to jobs, it has had the perverse effect of causing some employers to terminate contracts before the sixth month. Young workers and women are particularly exposed to income risk because of this unintended effect of policy. Similarly, the labor code requires that employees who have been repeatedly engaged on contract in activities that are "usually necessary or desirable in the usual business or trade of the employer" be deemed regular workers. Moreover, employers who engage workers through "labor-only contracts" with intermediary firms are obliged by law to accord these workers rights to which their own direct workers are entitled. These rules tend to limit the mode through which small and medium industries can create jobs.

Regulation of working hours. Legislation allows companies to reduce working days if such is justified by the financial conditions of the company.

Part-time work is also increasingly recognized as a reality – but the ambiguity of labor legislation regarding part-time work persists. This ambiguity relates to the applicability of rules about job security, minimum wages, and over time pay to part-time workers.

Minimum wages. Minimum wage rates mandated by Regional Tripartite Wage and Productivity Boards since 1989 have for various reasons been set in the immediate vicinity of average wages [Pascual 2001]. Minimum wages can affect overall wage setting and employment greatly, as they are used as entry wages in areas where enforcement is potentially strict.

Implications for the choice of income support programs. Except for the apparent softening on work-hour reductions during periods of crisis, the Philippine Labor Code favors indefinite, full-time labor contracts. This traditional approach maybe contrasted to 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 of income replacement programs.

3.2 Who are the unemployed?

In the 1990s, the Philippine unemployment rate was around 10 percent, and the average duration of unemployment spell was about seven weeks. The peculiarity of developing countries like the Philippines is that unemployment is more common among non-poor workers. In 1997, for example, only 12.1 percent of the households whose heads were not employed were poor, in comparison to a 25 percent poverty incidence in general [Balisacan 1999]. Unemployment is highest in the National Capital Region (NCR).

Underemployment. A characteristic of Philippine poverty is that the most deprived groups are found among the ranks of the underemployed. 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. Results by Alba and Esguerra [1999] suggest that a worker on average would prefer to be fully employed until his unemployment income exceeds Php 9,000 – an income significantly above the poverty line and above average incomes in the formal sector – before opting for unemployment. The underemployment rate exhibits less regional variation than the unemployment rate.

The size of the informal sector. In 1998, 51 percent of the Filipino workers worked in the informal sector (defined as own account workers and unpaid family members). 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.

Implications for program choice and design. The above facts have important implications for both efficiency and equity aspects of income support programs. First, a large informal sector underscores the importance of programs accessible to non-regular workers. Second, the informal sector offers an important opportunity for exit from unemployment, and this exit should not be discouraged by the introduction of income support schemes. Third, equity considerations suggest that the underemployed should be regarded as an important potential client group for income support programs. Fourth, providing income support to the long-term unemployed may, paradoxically, increase inequity, because this will exclude the poor who lose jobs but cannot afford to wait too long for "suitable" employment opportunities.

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. 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. Calculations based on the 1997 Family Income and Expenditure Survey (FIES) show that total income transferred in 1997 had decreased to 9 percent of the overall income of households, compared to 12 percent in 1988. Still, for households receiving such transfers in 1997, which comprised 42 percent of the population, the average amount received was large compared to any public program. The amount ranged between an average of Php 11,000 for the receiving households in the ARMM region and Php 49,000 for those in Metro Manila, such transfers, on average, accounted for more than 20 percent of income for recipients in 11 of the 16 administrative regions of the country (Table 2).

The scope and intensity of inter-household transfers is uneven across regions. Moreover, transfers from abroad made up three-fourths of total transfers in 1997, up from two-thirds in 1988. The Philippines, therefore, has a "diversified" portfolio of inter-household transfers--with the potential for avoiding some of the usual sources of covariance risks that come with modes of coping that are confined in the same geography. Still, Fachamps and Lund [1997] 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. The same authors also simulate the effects of the introduction of unemployment insurance in the Philippines, assuming a 50 percent replacement rate for lost income. Their simulations show that the consequent reduction of private transfers would erode 91 percent of the income received from the public program, yielding very little net gain.

Table 2: Dimensions of inter-household income transfers (pesos)

Region	Percentage of families receiving assistance from other households (scope)	Average amount received by individual households that receive assistance from other households (intensity)	Total amount 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: Computations based on 1997 Philippine Income and Expenditures Survey (FIES).

Implications for program choice and design. The above findings have far-reaching consequences. First, regional unevenness in 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 likely to remain robust even in the presence of domestic macro shocks. 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 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

Formal and informal strategies for self-protection are potentially adequate only for high-income workers, but are inadequate for most of the rural poor. Recent household income and expenditure surveys [Family Income and Expenditure Survey (FIES) 1997 and Annual Poverty Indicator Survey (APIS) 1998] show that the poor, despite such informal modes of insurance, 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 [Balisacan and Edillion 1999].

Workers in the formal sector have access to consumer credit. For example, in Metro Manila close to 39 percent of households from the eighth and ninth income deciles qualified for consumer credit (according to 1997 FIES). Moreover, large companies frequently have private retirement, education, accident insurance and/or life plans for their workers. These assets have cash surrender values and it is also routine for insurance firms to offer loans backed by the accumulated premium payments. Of the 419 collective bargaining agreements that were forged in 1997, 128 or 30 percent contained provisions for life insurance of workers.

For poorer workers in urbanized 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. Pawnshops offer low transaction costs, rapid loan processing (15 minutes) and average loan amounts of Php 1,000 at interest rates between 4 and 5 percent per month.

In the rural areas, financial institutions, including government ones, are notoriously reluctant to lend to the poor – particularly for consumption purposes. For example, the Agricultural Credit Policy Council estimates that in 1997 only 1.84 million of the 4.6 million small farmers in the country were able to secure loans from formal credit conduits. Many farmers thus use other ways to self-protect. Temporary jobs in the informal sector or in non-farm rural activities are an example. Except close to urban centers, however, labor productivity in informal sector is very low. Another important mechanism is share-tenancy. Tenants can borrow from their landlords using their share in future harvests as collateral. Beyond being a credit channel, and in contrast to the leasing or direct

ownership of land by small independent farmers, this share-tenancy arrangement reduces the magnitude of the income loss to the farming household in cases of crop failure. It is akin to the limited liability of shareholders of corporations. Although share-tenancy is like a tax with strong disincentive effects on work and farm investment, it is an option that poor farmers prefer due to their low ability to absorb income shocks. Other efficiency-reducing modes of insurance used by small farmers include keeping farm animals or excess grain supplies.²

Implications for project choice and design. Financial and insurance markets imperfections and wealth constraints leave farmers vulnerable to income shocks. To improve farmers' ability to smooth consumption, means of consumption smoothing are required in addition to the gradual struggle to nurture savings institutions (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 informal sector employment and non-farm activities are not a viable source of incomes.

3.5 Administrative capacity for program administration

Some of the programs reviewed in section four require high levels of administrative capacity, particularly in settings like the Philippines where the proportion of workers in the informal sector is high. This section identifies some key indicators of existing capacity to screen beneficiaries, that is, to generate reliable information on their employment status, poverty level, income, and job search effort.

It seems that information requirements about the payment of program premiums do not constitute a significant barrier for the introduction of unemployment support programs of a contributory nature in the Philippines. For example, the Social Security System (SSS) administration keeps records of contributions of its active members so as to be able to calculate the pension benefits. This kind of information system would be necessary for the administration of programs such as unemployment insurance/assistance and UISA. Moreover, recent advancements in information and communication technology suggest that record-keeping of premium payments as well as disbursements of funds will become increasingly more affordable even in low income countries such as Philippines.

² According to Binswanger and Rozensweig [1992] "investment portfolios of small farmers reflect their difficulties in smoothing consumption in the face of high risks." The overall profitability of farmer asset portfolios can be improved even via interventions that do not necessarily require a redistribution of wealth; in particular, those that reduce constraints on ex post consumption-smoothing; e.g., credit market improvements, weather insurance, or employment schemes may be as effective. However, covariance of risks and moral hazard make the establishment of credit programs and insurance particularly difficult in rural areas, and the poor experience of such schemes is testimony to this difficulty.

For several reasons, the task of monitoring labor market status, however, would be extremely difficult for a low-income country like the Philippines. Above all, monitoring of availability to work, and of earnings obtained in informal sector engagement, is virtually impossible. As discussed above, a very large informal sector, together with the ease of entry and exit in 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 sectors is much smaller in the Philippines than in developed countries. The task of monitoring eligibility could become somewhat easier when a link between SSS and PESOS³ is established (currently, however, such a 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 SSS can be used as 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 wage-workers 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 that, 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.⁴ 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.

Administrative capacity for implementing labor-based public works schemes seems 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

³ Public Employment Service Offices (PESOS) were established in the mid-1980s to facilitate job exchanges in major cities and towns in the Philippines.

⁴ 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.

(DPWH) 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 absence of administrative capacity among PESOs for determining the employment status of workers, and for determining eligibility in the case of means-tested schemes means that programs such as unemployment insurance and unemployment assistance will require large and expensive overhead costs before they can become administratively feasible. 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 used in developed and, some of them, in developing and transition countries, and evaluates how appropriate they are for the Philippines. It focuses upon the following programs: unemployment insurance, unemployment assistance, severance pay, unemployment insurance savings accounts, and public works (and, separately, labor-based equipment-support public works).⁵

4.1 Unemployment insurance

Unemployment insurance (UI) is the most common income replacement program for unemployed workers in developed countries. It is typically mandatory and covers, with few exceptions, all of the workforce in these countries. To qualify for UI benefits, the worker must satisfy the minimum covered employment or contribution requirement. The reason for being unemployed may affect eligibility, with job 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.

⁵ A longer version of the paper discusses also the merits and shortcomings of livelihood programs (see Esguerra et al, 2001, forthcoming).

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 risk across large groups of workers, it is suitable under most types of income shocks.

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 “mechanical” transplantation of such a program to a low-income developing country. Namely, it has been shown that the UI system performs relatively well under conducive labor market institutions, which include a small informal economy, strong administrative capacity, that absence of persistent structural shocks, and low exposure to political risk. If one or 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 of flexible adjustment to income shocks.⁶

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 lead to 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 and increase the equilibrium level of unemployment. Another reason for the latter effect is the possibility that unemployment insurance may raise the reservation wage, which would increase the bargaining power of unions, the effect which is more likely 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.

4.2 Unemployment assistance

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. Benefits, which are usually in cash, 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.

⁶ For a recent survey of the effects of UI, see Holmlund [1998], and for the interactions of shocks with institutions [Blanchard and Wolfers 1999]

Means or income testing is conducted not only on the personal financial resources of the applicant but also on that of the spouse and other adult members within the household. Benefit levels, which are periodically adjusted for inflation, can vary according to factors such as income, marital status, the presence or number of dependents, and the age of children. 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 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 circumstances, economic and other, 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.

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.

Another important plus for the program is its highly progressive nature. 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 [Vroman 2001]. Among transition economies, the distribution of unemployment benefits was most progressive in Estonia, the country with an unemployment benefit system that resembles unemployment assistance (see Table 3).

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. For example, a similar screening of applicants for tuition waiver at the University of the Philippines is carried out at a cost of Php 480 (around \$10, 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 Php 415 in 1998.⁷ 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.

⁷ This estimate is the sum of per capita spending for the poor in the core areas as health, education, water, nutrition, social welfare and livelihood programs (see Table 17, page 20 in Manasan [2000]).

Table 3: Distribution of benefits and beneficiaries of unemployment support programs, mid-1990s*

	<i>Poorest quintile</i>	<i>2nd poorest quintile</i>	<i>Middle</i>	<i>2nd richest quintile</i>	<i>Richest quintile</i>
<i>Unemployment insurance/unemployment assistance**</i>					
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
<i>Severance pay</i>					
Philippines***	0.2	5.2	15.3	22.3	56.9
Peru	4.7	9.5	28.6	33.3	23.8
<i>Unemployment insurance savings accounts</i>					
Colombia	0.0	4.3	n.a.	19.1	76.6
<i>Public works</i>					
Argentina	78.6	15.3	3.5	2.1	0.4
<i>Training</i>					
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).

Heavy screening of the applicants under an unemployment assistance program is necessary because the program is prone to moral hazard problems: only sufficiently low family earnings trigger the payment of benefits – hence there are disincentives to taking a job or to working longer hours. For example, empirical evidence shows that unemployment assistance creates disincentives for family members of the recipients to take a job (see Vodopivec [2001]). 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. 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.

Implementation hurdles, therefore, suggest that an 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 the population 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 with much cruder administrative controls for subtle monitoring mechanisms that exist among close friends and relatives.

4.3 Severance pay

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. In some developing countries, severance pay is provided only in some sectors, industries, or firms above certain sizes. Usually, severance benefits are some function of the years of past service. They are typically provided to individuals who voluntarily depart due to personal reasons or who are discharged due to redundancy; those who are dismissed due to gross misconduct are not entitled to severance benefits.

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 theoretically have first preference as regards their wages and other monetary claims.

In many developing countries, severance pay is the only formal income support program available to unemployed workers. Severance pay is undoubtedly a very valuable benefit as it helps to mitigate the reduction of consumption. For those unemployed who received severance pay the receipt of severance pay can more than compensate for the effect of unemployment, so that the consumption per head in the initial stages of unemployment can be higher than the consumption per head of otherwise similar workers who remain 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.

As with other programs offered to formal sector workers only, severance pay beneficiaries tend to be concentrated among the richer segments of the population. In the absence of information on severance pay in the Philippines household surveys, data on "back wages" can be used as proxy for severance pay. Richer households are by far more able to enforce their entitlements to back wages when employers violate the procedures on dismissal to avoid severance pay; in all likelihood, then, severance pay benefits are also concentrated among the richer segments of the population. In 1997, 57 percent of households that received back wages belonged to the richest 20 percent of the Philippine population. Moreover, workers in 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 the 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 element) reduces employment.⁸ 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 a 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 five percentage points of reduction of employment in Latin America to job security provisions. In the Latin American context, the fact that severance pay lowers employment rates can

⁸ 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.

also be interpreted as indirect evidence that severance pay also pushes workers into the informal sector. 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 courts and thus raise large litigation costs – and workers often do not get the benefits, or get them with substantial delay. For example, by October 2000 there were about 45,000 unresolved legal disputes 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 1998.⁹ Many disagreements are about whether or not the reason for dismissal was to avoid “further losses” or because of redundancy; the compensation for the latter is higher. 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 often futile effort 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.

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

4.4 Unemployment insurance savings accounts

Under the unemployment insurance savings account (UISA) system, firms and employers are required to deposit a fraction of the 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 a UISA are not funded from general taxes. However, according to some proposals (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

⁹ Interview with Mr. Benedicto Ernesto Bitonio jr., Undersecretary of Bureau of Labor Relations.

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 such a system has been in place in Brazil, for several decades. Several other Latin American countries have introduced it 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.

By internalizing the costs of unemployment benefits, the system is expected to avoid the moral hazard inherent in 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 Columbia), they do not raise labor costs nor push workers into the informal sector.¹⁰ 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 other important 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 down on litigation costs associated with severance pay described above. Second, under the traditional UI system, employers often cheat and stop paying social security contributions without the knowledge of the workers. By transferring money to individual accounts, workers themselves do the monitoring, and thus the UISA effectively avoids this problem. And third, the severance pay schemes and several other funded schemes imply that setting up a UISA system need not be expensive as will be discussed below.

There are several important shortcomings of the UISA system, however. 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 better than UISA. 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 3, nearly 80 percent of the UISA beneficiaries in Peru are from the richest quintile of the income distribution. Third, young workers or labor force entrants are not able to accumulate enough

¹⁰ 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.

savings at the time of separation from work to tide them over the unemployment spell.

The above objections need not be fatal to the proposal for introducing UISA in the Philippines. Hybrid arrangements can be designed that correspond to the preference of the stakeholders regarding risk pooling. Young entrants into the labor force especially those who are heads of households, for instance, who have not accumulated sufficient funds for income smoothing may be allowed to sustain negative balances [Feldstein and Altman 1998]. The unskilled among the long-term unemployed may be provided with subsidies either from taxes or from accumulated earnings from pooled UISA balances.

Several features of the Philippine economy make the introduction of the UISA system an attractive option that can be gradually introduced through different channels.

First, the introduction of the UISA scheme could be linked to the merging of the existing severance pay scheme with other schemes (for example, with Pag-IBIG and Social Security) to offer a 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 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.

Alternatively, workers and their employers can be given the option and inducements to migrate from the severance pay scheme to a mandatory system of UISA housed at the SSS. Individual workers' severance and retirement pay schemes could be pooled to jointly build up the savings account. The Colombian case might provide a good model for the transition out of the severance pay scheme. It anticipated and addressed the resistance from older workers who may have felt that they have already established an entitlement to a significant severance pay. The Colombian Labor Reform Law of 1990 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 [Lora and Henao 1997].

Second, the 1992 private sector retirement pay law in the Philippines, despite official misgivings as to its appropriateness, already provides legal basis for additional retirement benefits. The likelihood that these benefits are actually going to be paid, and that they are going to be available to workers at the time of need, would substantially improve if these entitlements were converted to deposits to individual savings accounts from which withdrawals could be made during spells of unemployment. Although there is still no clarity as to the implementing guidelines of the retirement pay law, presumably a portability mechanism can be created that would allow the worker to draw his due from each employer even as he moves from one place of employment to another.

Third, in the Philippines there are several programs that offer consumption smoothing. These programs – some 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 can tap in case of unemployment. These programs include:

- *Policy loans from private life and non-life insurance.* 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 in 1997 had provisions for various insurance schemes. 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.
- *Pag-IBIG scheme:* except for low-paid workers, all others contribute two percent of their wages (matched by the same amount of contribution from their employers) to a special provident fund, from which they can draw subsidized loans for housing and other needs (medical, educational, etc.).
- *Emergency loan facility.* During periods of severe economic difficulty displaced workers have been eligible to borrow from the State Insurance Fund of the ECC, through funds administered by the SSS; if they do not repay, the total amount of the outstanding loan plus the monthly interest is deducted from the final claim for social security benefits.

Even without additional mandates from the executive or Congress a program resembling past *ad hoc* emergency loan programs for displaced workers could be implemented on a regular basis by the SSS. This need not have long-term fiscal implications for SSS, because loans would be covered by the members' own assets. It seems entirely possible for the SSS to give workers continued access to salary loans and other benefits during unemployment through what seem to be only very minor adjustments in paperwork. The essential feature is to allow workers to automatically convert their status from being members who are "employed" to being "voluntary" members upon receiving the advance thirty-day notice of dismissal from their employers. To retain access to salary loans, workers need only to continue paying the small monthly contributions.

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. However, 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.

4.5 Public works

Public works provide low-wage work to poor individuals. These programs usually have multiple objectives, although the functions of income support and the construction of infrastructure are usually emphasized.

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 a 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 Maharashtra program that are available to workers upon demand. Most recently, the thing that comes closest to a program that creates employment and reduces risk of falling into poverty traps due to seasonal joblessness is a small program of the DOLE called Emergency Employment Program (EEP). Under the EEP, the DOLE paid 60 percent of the workers' wages while the 40 percent was shouldered by local government units. The workers were paid the prevailing minimum wage. The average compensation for actually implemented and ongoing projects from 1998 to June 2000 was Php 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 Php 122 per day (BLES, second quarter 2000).

Public works are effective in reaching the poor and have substantial capacity to redistribute income from the rich to the poor (Table 3). 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 that are small in absolute magnitude. Second, public works can offer effective insurance by providing a quick response to changes in circumstances of households. In comparison with other programs, public works do not require complex administration, so they may be quickly set up in areas affected by shocks.

Several circumstances make public works an attractive scheme for the Philippines. First, there exist large mono-crop areas that make large segments of the population vulnerable to commodity risk and structural shocks. Households in such areas and in rural areas more generally also face recurrent simultaneous exposure to drops of income due to drought, typhoon or other natural calamities. Second, the cyclical nature 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 (see discussion below).

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 on the non-poor). Second, the counter cyclical 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.

In the Philippines, past public works programs (the Community Employment and Development Program 1986-1988 - and *Kabuhayan 2000* - 1994 to 1996) have suffered from various problems. First, wage levels have been set too high (see also Subbarao et al [1996]). In Argentina's Trabajar program the wage is set at two-thirds of the wage in the nearest city [de Ferranti et al 2000]. Second, there have been no well-designed, demand-driven mechanisms of allocation of public works. Allocation depended neither on counterpart mobilization of local resources nor on targeting of geographic or sectoral poverty and vulnerability as in the successful Trabajar program.

The application of the key elements of the Trabajar scheme to projects in the Philippines can be illustrated by using the Php 1.5 billion cost-sharing scheme that was jointly implemented by the league of mayors (LMP) and the Department of Public Works and Highways (DPWH) in the year 2000 as an example. In the LMP scheme each town is provided with Php 1 million to implement labor-intensive infrastructure projects, provided that it is able to provide an equal counterpart fund.

In a modification of this scheme along the lines of Argentina's Trabajar program, the subsidy will not be accessible except where labor-based technologies are used as indicated by the mobilization of *pakyaw*¹¹ 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. 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 depend not on its ability to put up counterpart funds, but on its ability to identify civil works and arrange competitive bids for *pakyaw* groups that will implement the public works. As will be explained below competitive bidding for small contracts becomes an essential design element if legal prohibitions against wages below the mandated cannot be avoided.

Ensuring self-selection into public works scheme by the poor. The need to comply with minimum compensation standards is the most important consideration in wage determination for public works schemes in the Philippines [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 is a system where, competitive pressures can potentially bid down the compensation so that only the poor benefit from the program. The *pakyaw* groups provide only labor so there is no capitalization requirements to be hurdled. The system has been employed by the Department of Public Works and Highways (DPWH) since 1987.

Pakyaw, or the task rate system, has the potential of linking pay in public work programs 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 an output-based compensation scheme. Where *pakyaw* groups are selected on the basis of competitive bids¹² for public works tasks, the compensation to be received by the laborers will tend towards the prevailing local wages for unskilled local workers.

¹¹ The term refers to a payment system based on the completion of a defined task.

¹² 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. Therefore, competitive bidding is crucial for the *pakyaw* system to become an alternative self-selection mechanism among beneficiaries. The deliberate breaking up of large projects into small sub-segments would only be one of the important pre-requisites for setting up competitive bidding for small public works.

4.6 Labor-based equipment-supported public works

Labor-based equipment-supported (LBES) public works is not a freestanding program of employment creation, but a specific approach to implementing public works. Under this approach, the income transfer function is emphasized, the function which is especially important for a country as exposed to various types of shocks as the Philippines.

LBES technology allows public construction projects to hire substantially more workers than traditional equipment-based technology. For example, with public construction programs of nearly Php 10 billion pesos in year 2000, the Department of Public Works and Highways (DPWH) could have hired nearly 45,000 workers, or three times as many, had it used the *LBES* technology, as opposed to around fifteen thousand workers which it hired under the use of traditional methods of construction.¹³ The tripling of the number of workers hired is the direct result of the fact that in traditional equipment-based technologies, labor very seldom makes up more than 10 percent of the project cost. The use of *LBES* technology allows for the reduction of equipment cost and for the rise of the cost-share of labor of up to an average of thirty percent.

In the Philippines, despite the absence of a comprehensive public works program, there have been renewed attempts to increase the use of labor for rural infrastructure. Labor-based units have been established in many government agencies with infrastructure projects by 1988. In 1998, then President Estrada wrote a memo asking the Department of Budget and Management to release funds for labor-intensive projects and exhorting several departments to maximize the use of labor-intensive construction technology in the implementation of infrastructure projects. In the same year, Executive Order 94 was signed, which strengthens further the institutional framework of *LBES* infrastructure programs.

In a cross-country impact evaluation study, Keddeman [1998] finds that labor-based rural infrastructure programs employ significantly more labor and may well be 25 to 30 percent cheaper than their equipment-based counterparts. They provide significant forward linkages and significant multiplier effects to the local economy. For example, by using labor-based methods, as much as \$3,000 to \$5,000 per kilometer of constructed road is injected into the local economy. Labor-based projects also lead to income distribution in favor of the poor, provided that a self-targeting mechanism via lower than market wages is put in place.

If technical quality and cost of production are the same, and the duration of construction is not dramatically different, arguments against the *LBES* technology are difficult to justify. However, empirical evidence suggests that it takes more than the apparent existence of an institutional framework to implement labor-based rural public works programs. For example, Ghana's experience in labor-based programs indicates that a gamut of institutional factors determine the

¹³ The estimated number of generated jobs under *LBES* technology is obtained by assuming that 30 percent (Php 3 Billion) of expenditures is spent on wages, which – assuming Php 270 as an average wage payment, and 230 working days in a year – produces 44,445 full-time jobs per year.

based programs indicates that a gamut of institutional factors determine the program's success [Stock 1996]. One of these is especially relevant to the Philippines, where problems in management of fund flows and releases are significant, specifically, the promptness of government payments to contractors.¹⁴ As noted by Stock and de Veen [1996], for force account operations, cash flow problems affect labor-based force account operations more quickly than they affect equipment-based operations. In Ghana, late payments have proven to provide a bias for equipment-based methods. Small contractors employing labor-based methods are unable to bridge financing gaps and thus face the threat of labor strike whenever government remittances are late. Possible solutions include setting up a buffer fund, or decentralizing LBES projects.

Implementation rules. Although the arguments for the use of LBES technologies may be persuasive, various issues and difficulties arise when such programs are to be implemented.

The requirements under the law governing public works may need to be reviewed. Batas Pambansa Bilang 132 states that LBES technology should be used only when the estimated cost of LBES construction does not exceed the equipment-based alternative by more than 10 percent, estimated duration of LBES construction does not exceed the best alternative by more than 50 percent, and the technical quality is the same. It may make sense, however, to allow the cost of a project using LBES technology to exceed the cost of equipment-based alternative by more than 10 percent if the objective is to provide rural residents a chance to earn incomes in the off-season or during droughts.

Presently, the LBES technology is used only in projects constructed in-house (using so-called force accounts of the DPWH) within public agencies. When construction jobs are contracted out to the private sector, the government cannot compel the contractors to use the LBES technology. The appropriate response to this problem may be found less in the design of contracts, but in the financial incentives described above that can predispose local governments to choose projects that use unskilled workers rather than skilled workers.

5. Conclusions and policy implications

This paper has placed the discussion of alternative income support programs for the unemployed in the Philippines, in the framework of general risk management. Income support systems for the unemployed were viewed in the wider context of other formal and informal mechanisms of social risk management. Particular attention was devoted to the interconnection between unemployment support programs and the financial and the labor market, the latter being of utmost importance for enhancing the self-protection capacity of individuals and households.

¹⁴ The practice of a deliberate delay in the government payment of its contractors is widespread in the Philippines.

Choosing the appropriate public income support program for the unemployed that involves the following important considerations:

- a) How well does the program respond to the country's income shocks which 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?
- b) 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 that may have superior efficiency properties relative 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?
- c) Is the program compatible with 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?
- d) Finally, 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 Philippines better than relying on only one program. Having said that, an approach that could enhance income protection for the unemployed, as well as foster unemployment risk prevention mechanisms seems especially appealing. It is a two-pronged approach, that consists of:

- a) *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.
- b) *Public works* – the possibilities of the enhanced use of public works programs should be explored – 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 the 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 funds available 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 savings 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 current financial and administrative obstacles less important.

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