

Technical note

Social Partners' Views on a Possible Unemployment Insurance Scheme

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I. Background

Ensuring that everyone can realise their human right to social security includes, among others, the implementation and provision of unemployment protection measures (e.g., temporary income support, skill development training, job searching and matching services, etc.). In the event of job loss, providing such protection can shield workers from sliding into poverty and sudden deprivation as well as promote the formalisation of workers. In Bangladesh, such safeguards are almost non-existent. Massive job losses caused by COVID-19 exposed a major faultline in the country's existing social security system, failing to provide any support to the people who became suddenly unemployed. It is in this backdrop that the formulation and implementation of an appropriate unemployment insurance (UI) scheme have received renewed policy attention.

The National Social Security Strategy (NSSS) adopted, in 2015, recommended for exploring possibilities for establishing a National Social Insurance Scheme (NSIS) including a UI component. However, the progress towards implementing the NSIS has rather been limited. Also, the preparatory measures needed for successful fruition of UI are lacking in Bangladesh, while the international best practices and ILO Social Security Standards relevant to setting up unemployment protection measures are least understood in the country. Against this backdrop, a tripartite consultation meeting on 'Fostering Unemployment Protection Measures in Bangladesh' in the form of a webinar took place on 11 November 2021. The ILO Country Office in Bangladesh hosted the event, which was attended by many distinguished guests and participants, including Mr Abdul Mannan M.P., Hon'ble Minister for Planning; senior government officials; representatives from employers' and workers' associations; think tanks; United Nations agencies; and other development partners. The main objectives of the consultation were to discuss the international standards of unemployment protection, in particular the ILO Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168); and share ideas for introducing an unemployment insurance scheme taking into consideration Bangladesh's labour market structure and trends, and existing unemployment protection provisions. This note presents a summary of stakeholders' views regarding the potentials and challenges to establishing unemployment protection measures including an unemployment insurance scheme in Bangladesh.

II. ILO Social Security Standards: Employment Promotion and Protection against Unemployment

A key objective of the stakeholder consultation was to better appreciate the principles and parameters enshrined in the ILO Social Security Standards regarding unemployment protection. This discussion was facilitated by a technical presentation (from ILO), which explained the most relevant ILO standards for the design, implementation, and operation of rights-based unemployment protection programmes. These include:

- (i) The Social Security (Minimum Standards) Convention, 1952 (No. 102; Part IV - Unemployment Benefit),

- (ii) The Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168),
- (iii) The Employment Promotion and Protection against Unemployment Recommendation, 1988 (No. 176),
- (iv) And, finally, the Social Protection Floors Recommendation, 2012 (No. 202).

Following the global financial crisis in 2009, the need for unemployment protection has increasingly been discussed. In this context, Recommendation No. 202 was adopted in 2012; as the most contemporary social security instrument, it calls for the establishment of social protection floors that comprise basic income security, at least at a nationally defined minimum level, for ensuring that the level of income is sufficient to prevent poverty, vulnerability, and social exclusion (Paragraph 8(b)). Therefore, the Recommendation provides a set of principles and meaningful guidelines for setting up an unemployment protection scheme as an integral component of the overall social protection system.

The crucial importance of integrating active labour market policies (ALMPs) with unemployment benefits is expressly recognised in Convention No. 168 and its accompanying Recommendation, where social security is regarded as a means to promoting full, productive and freely chosen employment.¹ Therefore, the Convention reflects the linkage between suitable employment skills and employability. The two-fold objectives of Convention No. 168 are: (i) provide income support to protected persons who have experienced a suspension of earnings and are capable of, and available for, work. (Article 10) and (ii) contribute to the promotion of full, productive, and chosen employment (Articles 2 and 7). Achieving these two objectives requires the effective coordination of social security and employment policies to ensure that unemployed workers can return to suitable employment as quickly as possible.

As per ILO Social Security Standards, the provision of unemployment benefits should be based on periodical payments and subject to the person being capable of, and available for, work and actively seeking work. A social insurance mechanism is optimal in most cases mainly because of two reasons: firstly, it is better suited to protect workers' rights and allow for income support to even employers who become bankrupt or insolvent; secondly, it allows for pooling risks and costs of unemployment protection through collective financing mechanism that will have the solidarity and distribution across different types of short-medium and long-term contracts, small/large enterprises, rich/poor regions, etc. It is worth noting that insurance based on individual savings accounts does not pursue a principle of solidarity and collective financing, which are core to the ILO normative framework².

In terms of the coverage of an unemployment protection scheme, Convention No. 102 (Article 21) stipulates that at least 50% of all employees or all residents of small means, while Convention No. 168 (Article 11) requires that at least 85% of prescribed employees including public employees and apprentices shall be covered. However, cross-country experiences suggest that the effective coverage of UI varies from country to country.

¹ Convention No. 168, Article 7 and Recommendation No. 176, paragraph 2.

² For example, the principles of solidarity and collective financing are enshrined in Convention No. 102, Art 71. In addition, paragraph 3(h) of Recommendation No. 202 provides that "solidarity in financing while seeking to achieve an optimal balance between the responsibilities and interests among those who finance and benefit from social security schemes".

On the question of rates of benefits, the ILO Conventions stipulate that unemployment benefits should be a periodical payment, that must attain at least 45% of the reference wage (Convention 102, Article 66) and at least 50% as per the Convention No. 168 (Article 15). It is to be noted that in the case of non-contributory tax-funded schemes, Article 67 of Convention No. 102 stipulates that the benefit shall also be a periodical payment, the amount of which is determined by the competent public authority, and shall be sufficient to maintain the family of the beneficiary in health and decency. However, the benefit levels provided differ across countries. Convention No. 168 further provides that where benefits are not based on contributions or previous earnings, they shall be fixed at not less than 50 per cent of the statutory minimum wage or of the wage of an ordinary labourer, or at a level which provides the minimum essential for basic living expenses, whichever is the highest (Article 15).

Considering the duration of the benefits, ILO Social Security Standards recommend setting out certain minimum benchmarks. Convention No. 102 permits that benefits are limited to 13 weeks within a period of 12 months or 26 weeks within a period of 24 months (Article 24). On the other hand, the more advanced standard on unemployment protection, Convention No. 168 permits that the initial benefit duration may be limited to 26 weeks in each spell of unemployment or to 39 weeks over any period of 24 months. Moreover, if unemployment continues beyond this initial period, the duration of the payment of benefit may be limited to a prescribed period.

Integrating active labour market policies (ALMPs) with the unemployment protection scheme is one of the most important features of the ILO's normative approach towards unemployment protection. Article 7 of Convention No. 168 emphasises the priority objective of designing policies to promote full, productive, and freely chosen employment including employment services, vocational training and guidance, labour market information, etc.

Finally, it should be noted that acknowledging the technical and administrative difficulties involved in the planning and introduction of social security mechanisms for the compensation of unemployment, Recommendation No. 176 specifies that introducing unemployment compensation through the payment of benefits of a non-discretionary nature, countries should seek to meet the following conditions as soon as possible:

(a) presence and satisfactory operation of a well-developed free public employment services containing a network of employment offices and have sufficient administrative capacity to collect and analyse information on the labour market, to register job offers, and jobseekers, and to verify objectively that persons are involuntarily unemployed.

(b) a reasonable level of coverage by and extensive experience in the administration of other branches of social security deemed to have priority on social and economic grounds, such as primary health care and compensation for employment accidents.

Based on the above guidance extracted from the ILO Social Security Standards and international experiences, the following issues should be given consideration while devising a UI in Bangladesh.

- The key parameters (e.g., contribution rates, benefit level and duration, etc.) for designing an unemployment insurance scheme vary widely across countries, yet, the principles and parameters set out in the ILO Social Security Standards are paramount for the development

of effective rights-based unemployment protection schemes. The design of the unemployment insurance model for Bangladesh would therefore be based on a robust social dialogue amongst the social partners and the relevant stakeholders.

- Initiating a UI scheme may require a considerable amount of time for the social partners to reach a tripartite consensus on the key parameters for the scheme design and implementation.
- The UI should be based on social insurance principles, so that the financing of the scheme complies with the principles of solidarity, risk pooling and collective financing, which have been internationally agreed by government, employers, and workers' representatives.
- The technical and administrative difficulties involved in the planning and introduction of an unemployment protection scheme should be carefully considered, as these schemes require administrative capacities to monitor the situation of the labour market, effective coordination with employment policies, and effective ALMPs. In this regard, it is important to note that Recommendation No. 176 specifies that in order to introduce various forms of unemployment compensation through the payment of benefits of a non-discretionary nature, countries should meet these conditions: (i) presence and satisfactory operation of a well-developed free public employment services containing a network of employment offices and having sufficient administrative capacity to collect and analyse information on the labour market, to register job offers, and jobseekers, and to verify objectively that persons are involuntarily unemployed; and (ii) a reasonable level of coverage by and extensive experience in the administration of other branches of social security schemes deemed to have priority on social and economic grounds (e.g., the Employment Injury Insurance Scheme).
- Bangladesh should follow an incremental approach in which it can start off with an employment injury insurance scheme, as a series of discussions have already taken place on this issue. It will help create awareness regarding the principles of social insurance and establish a management information system (MIS). Subsequently, the country can introduce the UI scheme, which requires a lot of maturity, awareness, and administrative capacities, as well as promoting a sufficiently high level of stable employment, through vocational guidance and training, among others.
- Bangladesh can consider initiating the NSIS with the more organised formal sector workers (like the readymade garment sector) that have employment contracts and can be included in any employment database required for smooth functioning of the UI administration. It can then be gradually extended to the entire formal sector workers.
- Finally, the NSIS can be extended to address the unemployment protection of the informal sector workers. This will be provided mainly through the ALMPs in combination with social assistance.

III. The Bangladesh Context for Improving Unemployment Protection

The consultation was also presented with a Bangladesh-specific context highlighting the labour market challenges and the need for unemployment protection.

- The official policy statements emphasise the need for creating two million jobs every year to accommodate the new entrants to the labour market. When underemployment and informality is considered, many more jobs are needed.
- Bangladesh is transitioning fast from the current era of working-age (with demographic dividend) to an ageing society. It is estimated that more than 7% of the population will be aged 65 and above by 2029 and 14% by 2047.
- Employment growth has been much slower than output growth.
- The labour force participation rate is generally low and for women, it is just 36%.
- The informal sector dominates the Bangladesh labour market (about 85% of the workforce are employed in the informal sector).
- Youth unemployment—currently at 11.4% vis-à-vis the national rate of about 4%—is posing a serious challenge. As high as 30% of the working-age population aged 15-29 are not in education, employment, or training (NEET).
- COVID-19 has exacerbated the pre-existing labour market challenges.
- Unemployment is not generally considered as a criterion for social protection support in Bangladesh and UI is non-existent in Bangladesh. In the absence of social protection and a UI scheme, COVID-19 took a huge toll on the unemployed.

The National Social Security Strategy, considering the lifecycle approach to social protection, envisaged establishing a national social insurance scheme (NSIS), including a component on unemployment insurance. This would provide temporary income support to the workers losing their jobs generally involuntarily. The NSSS Action Plan 2016–2021 set up an ambitious implementation plan comprising (1) to conduct a technical study and develop a plan for the NSIS by 2018, (2) to introduce the NSIS on a pilot basis by January 2019, (3) to formulate the NSIS law by 2020, and (4) to roll out NSIS nationwide by January 2021. In reality, very little progress has been made.

Currently, there is only a draft framework on the NSIS outlining various elements such as financing options, implementation feasibility, institutional structure, and mode of operations. However, this proposal needs serious reviewing and revisiting to comply with ILO Social Security Standards and international best practices.

Furthermore, public employment services in Bangladesh are not well-developed and the ALMPs need to be properly integrated with any UI scheme to realise the maximum benefit out of it. Such employment promotional measures as job searching and matching services, and counselling and placement services are almost non-existent for a vast majority of labour market participants. On the other hand, training programmes are grossly inadequate and are provided in a scattered manner by various ministries and departments. In addition, the legal framework for the UI must be robustly reviewed and revamped to introduce any UI scheme.

Overall, institutional set-ups and capacities must be appropriately enhanced for the effective functioning of any UI scheme. Along with the institutions involved in providing public employment services and ALMPs, the issues related to fund collection and management under a contributory scheme, workers' registration and employment database, procedures for claiming benefits, monitoring and review mechanism of the overall system, grievance redressal, etc. are areas where administrative capacities are seriously lacking.

Given the current context of Bangladesh, the initiation of a UI requires a concrete roadmap with clear and pragmatic guidelines for specific activities to be undertaken including, raising awareness on the principles of social insurance, securing a strong political commitment, completing all background/feasibility studies, obtaining approvals from the relevant authorities and social partners, putting in place an appropriate legal framework, strengthening institutional capacities, building strong employment services and ALMPs, and rolling out of the UI scheme progressively and incrementally building through a sectoral approach (e.g. starting-off with some formal sectors). To achieve these, the following issues should be given careful consideration.

- An NSIS champion is needed both within the government ministries and social partners. Here, the MoLE and ILO should be the natural choices since unemployment protection is foremost a social dialogue and industrial issue.³
- The importance of social dialogue and stakeholder sensitisation about the relevant NSSS provisions, international labour standards, ILO conventions and accompanying recommendations, principles of social insurance, etc., cannot be overemphasised.
- From the financial commitment and viability point of view, a UI for the formal sector could be a low-hanging fruit that can be materialised in a major boost to the national social protection system.
- There is a need to reinforce the employment services and ALMPs to fulfil the other ultimate objective of a UI scheme which is to support to return to work with suitable employment.
- Effective coverage through the UI scheme will remain limited due to the labour market features and predominant informal and vulnerable employment. Thus, there is a need for some ALMPs and income security options for those workers too.
- The MoLE, ILO, Planning Commission, and Cabinet Division should continue to work closely following the roadmap giving due attention to any realistic timeframe that would be agreed as part of the upcoming NSSS Action Plan.

IV. Discussions

The representatives of the stakeholders present in the consultation raised and discussed various aspects of the social insurance scheme including the unemployment insurance scheme. The major takeaways from the discussion are summarised below.

- **Raising awareness on social insurance among the stakeholders**

Raising awareness about the social insurance scheme is key to ensuring effective participation of all stakeholders. Social insurance is based on the principle of a contributory mechanism with contributions from both the employer and the employee. Lack of information and awareness often discourages stakeholders not to be involved in the system. One of the participants pointed out that there is a lack of clear idea about the principles of social insurance amongst the private sector employers' associations. Another discussant highlighted the issue saying that the mass people often

³ The ILO is the only international social partner with globally recognised standards related to unemployment protection adopted by tripartite constituents.

perceive insurance with unfavourable connotations. It is in this context that organising dialogues, arranging seminars, workshops, and consultation meetings with participants from various stakeholder groups will be an effective way to alter the view and attitude towards social insurance. Along with the government, social and development partners can also come forward to take initiatives to disseminate proper information and thereby build awareness among the stakeholders.

- **Formulating an appropriate and effective regulatory framework**

Formulating a new act and regulatory framework is needed to be in place prior to rolling out of the UI scheme. Most of the participants underscored the importance of this issue. One participant thought that formulating a new act or bill for NSIS would involve a lengthy process: from determining core issues of the act to passing it in the parliament. The NSSS envisaged that the National Insurance Act 2014 would govern the NSIS. However, there is a need for reviewing the legal framework robustly to consider further reforms and formulate a distinct legal provision for unemployment insurance. In that sense, it would be better to start with the existing legal provisions and consider changes, amendments, and additions needed. However, several participants were of the view that the existing legal provisions were scattered in nature. There is a need for strengthening the coordination among the relevant ministries and/or departments to assess the legal requirements and develop the next steps forward.

- **Strengthening the institutional capacity**

A well-structured and integrated institutional mechanism is a prerequisite to initiating a UI scheme. There is a draft proposal on the institutional structure, however, the progress achieved so far in this regard is very limited. The participants generally emphasised on starting the UI scheme using the existing institutional structure. Most participants highlighted the capacity development needs in various spheres from labour market information generation to dissemination to active labour market interventions to employees' database creation and management to legal issues to enforcement of laws and regulations. There was a consensus amongst the participants on getting assistance from development partners in building institutional capacities. The representative from the European Union (EU) stated that the EU has always been a partner in bolstering capacities in the country's social protection area. The EU was providing a budget support (worth of 150 million euros) initially to set up institutional capacity (since 2019). It would continue with its support for the ongoing programmes. The EU agreed to support the government in its new initiative for creating a digital workers' registry the importance of which was realised during the height of the COVID-19 crisis. Some participants were of the view that Bangladesh develops institutional capacities taking lessons from international good practices and with support from the social partners, e.g., ILO as technical adviser and financial assistance from other development partners (e.g., UNDP, EU, GIZ, World Bank, ADB, etc.).

- **Closely monitoring the progress towards rolling out of the UI scheme**

As there was an agreement on the massive task of strengthening capacity building at every level implementation, some participants suggested closely monitoring the progress towards rolling of the NSIS and UI scheme if needed by forming a steering committee. It was also mentioned that because of a lack of coordination among the relevant ministries and/or departments, progress could not be made as envisaged. It was important to move forward with the UI scheme in due course. Despite

several goals and targets that were already included in the first Action Plan of NSSS-2015, very limited progress was achieved. Monitoring of capacity building is equally important for workers and employers, as they are the major stakeholders. The representative from the Bangladesh Employers' Federation (BEF) put emphasis on the capacity issue by drawing on the fresh experience of the COVID-19 pandemic. Inadequate capacity, lack of resources, and absence of proper mechanism accounted for not managing the cash transfer programme during the pandemic in the right manner. Experience from the other comparable countries that are implementing UI schemes can help build the capacity needed. Moreover, social and development partners can play a significant role by imparting training and developing human resources to augment the capacity development at all levels and this must also be monitored and coordinated effectively.

- **Ensuring the sustainability of the UI scheme**

The long-run Sustainability of the UI scheme was of interest to many participants. Representatives from various government departments, Bangladesh Employers' Federation (BEF), and the National Coordination Committee for Workers' Education (NCCWE)—a national trade union association—expressed their concern on the question of sustainability of a potential UI scheme. One of the officials highlighted the need for setting up the UI scheme as a business model so that it would not collapse during a crisis like the COVID-19 pandemic⁴. It was mentioned that in the absence of a strong mechanism like a UI scheme, the government had to pay an extensive stimulus package to protect workers employed in the export-oriented sectors. However, such an intervention was extremely limited and was focused on the garment sector only ignoring the workers in other sectors. Therefore, the implementation of a full-fledged UI scheme in an effective and cost-efficient manner should be given due policy priority. The representative from the BEF mentioned importance of making such a scheme sustainable. According to him, the BEF will not be interested in supporting any UI scheme which will appear unsustainable. Prior to committing to the process, the BEF would like to ensure a UI mechanism which was beneficial for workers, employers, and the overall development of the country. The representative from the NCCWE also echoed with the representative from the BEF that the UI scheme should be sustainable to ensure long-term benefits.

- **An incremental approach to unemployment insurance**

Given the current context of Bangladesh, there are many preparatory works that Bangladesh will have to undertake before a UI system can be accomplished. Thus, a pragmatic way forward will be to incremental progress. In this respect, one suggestion was to implement the Employment Injury Insurance Scheme (EIIS) followed by a UI. A considerable amount of discussion on the EIIS has already taken place and piloting on this scheme would start soon. The experience on the administrative and institutional capacity for the EIIS could provide useful lessons for the UI scheme. Similarly, there were suggestions that the UI scheme should first be considered for some formal sectors only and then the

⁴ Of course, for such a major crisis, additional government support will be required along with any unemployment insurance scheme. During the COVID-19 crisis, almost all governments had to inject additional funding to extend coverage and benefits of UI schemes. At least having the structure in place allowed to quickly deploying the government's support to the workers and their family.

coverage can be extended by phases. This incremental approach of starting off with the formal sectors and then gradually extending to informal sector workers was also envisaged in the NSSS. One government official informed that implementation of the NSIS will also be reflected in the upcoming Action Plan 2021-26. Although there was a broad-based agreement on extending the coverage of UI to the informal sector, the challenges of such expansion were also acknowledged. In this regard, one participant suggested examining the pros and cons of transforming some of the microinsurance programmes (run by various NGOs) to social insurance as a potential solution to covering informal sector workers.

- **Strengthening public employment services and ALMPs**

Most discussants were of the view that there was a need for strengthening public employment services and active labour market policies to exploit the maximum benefits out of the UI scheme. Because the ultimate objective of the UI is to help return the workers to suitable and decent jobs as quickly as possible while protecting them during their involuntary unemployment. In Bangladesh, the provisions for employment services and ALMPs are extremely limited. Furthermore, services like job brokerage, job searching and matching, and counselling and placement services are virtually non-existent in the country. One participant pointed out that while ALMPs have been mentioned as a broad pillar of the country's Job Strategy, much needs to be done to make these policies effectively functional extending their coverage.

- **Formulating a pragmatic and implementable Action Plan**

Implementation of the UI scheme requires a clear roadmap backed by an effective action plan. One of the discussants opined that such an action plan with detailed responsibilities for the relevant ministries and other supporting organisations should be prepared. According to him, this can be done drawing on the country's past experience of implementing the programmes for achieving sustainable development goals (SDGs). Sensitising the tripartite constituents through social dialogues, promoting social principles through a champion, building capacities of the relevant institutions, etc. should form integral parts of the roadmap. One participant emphasised on a strong partnership involving the Ministry of Labour and Employment (MoLE), ILO, the Planning Commission, Cabinet Division, and the social and development partners in developing such a comprehensive roadmap.