Beyond Cash Transfers
Strengthening Unemployment Protection as a Response to Crises

Guidance Package on Social Protection across the Humanitarian-Development Nexus
Beyond Cash Transfers: Strengthening Unemployment Protection as a Response to Crises

This Brief contributes to the European Commission Guidance Package on Social Protection across the Humanitarian-Development Nexus (SPaN). It provides a closer look at the importance of unemployment protection in crisis contexts (see section C2 of the SPaN guidance reference document) and how crises can be leveraged to expand unemployment benefits for the formal and informal sectors. The think piece draws primarily on experiences of the ‘Improving Synergies between Social Protection and Public Finance Management’ programme (SP-PFM), an EU-funded initiative implemented jointly by the International Labour Organization (ILO), UNICEF, and the Global Coalition for Social Protection Floors (GCSPF). The lessons are relevant for development partners and government officials working in social protection and disaster risk management.

Key Lessons

- Establishing and strengthening unemployment protection schemes is both a priority for national development and an effective form of preparedness for large-scale crises.

- Especially in countries with high levels of informality, it is necessary to plan for a range of alternative social protection measures in case of crises, including temporary employment retention schemes.

- The design features and processes for development or reform of unemployment protection schemes must be adapted to specific country- and (anticipated) crisis-contexts.

- Effective unemployment protection requires establishing linkages with strong active labour market programmes and employment services.

- Social dialogue is critical for ensuring successful development of unemployment protection. Where formal spaces for dialogue are not (yet) functional, informal spaces should be created.

- Effective social dialogue requires a shared and credible evidence base from a range of sources.

1. Unemployment Protection as a Crisis Response Mechanism

Unemployment protection schemes provide income security to workers who are at risk of losing their jobs or are unemployed. They include both contributory and non-contributory instruments and lie at the intersection between social protection and employment policy. Minimum standards for unemployment protection are set out in ILO Convention No.102 (1952) and recommendations for extending, introducing, and maintaining social protection floors and building social protection systems are provided in ILO Recommendation No.202 (2012), the Employment Promotion and Protection against Unemployment Convention No.168 (1988) and accompanying Recommendation No.176 (1988), and other international social security and employment conventions and standards.
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Unemployment protection measures are designed to support individual or industry-specific job and earning losses. They can also be an effective tool to respond to large-scale crises. Given that the pre-funding model is based on social contributions, unemployment insurance can provide timely and cost-effective support to those who have lost work and are insured, helping to prevent a severe deterioration in living standards. However, where informal, under- and self-employment is prominent in the labour market and coverage of unemployment insurance is inadequate, additional resources are necessary, either from the State’s budget for other unemployment protection schemes such as social assistance or job retention schemes or from humanitarian agencies.

However, the widespread impacts of the COVID-19 pandemic on employment and incomes exposed significant gaps in the coverage and adequacy of unemployment protection schemes, especially in lower- and middle-income countries. One of the main constraints was the widespread absence or limited coverage of existing unemployment benefit schemes. In 2020, while 18.6 per cent of the world’s unemployed were receiving unemployment benefits, this percentage was just 5.5 per cent in lower middle-income countries and less than 1 per cent in low-income countries. By 2022, social insurance accounted for 15 per cent of the new social protection and labour measures used to respond to the pandemic in lower middle-income countries and just 7 per cent in low-income countries.

In this context, governments, workers and employers’ organisations, and development partners have used the pandemic as an opportunity to establish or reform unemployment protection schemes. This has, in turn, contributed to longer-term recovery and has strengthened social protection systems to provide both routine support and to act as an automatic stabiliser in case of future shocks. This Brief examines the experiences of Bangladesh, Ecuador, Peru, and Sri Lanka in introducing or reforming unemployment protection schemes following the COVID-19 pandemic.

Unemployment protection includes two main components:

1. **Unemployment benefits**, which aim to provide predictable temporary income in the case of involuntary job and earning loss. Benefits are typically financed through contributions from employers and workers - unemployment insurance - but can also be partially or wholly tax-financed by the government. Eligibility is linked to a qualifying period and benefits are defined by the rate, the waiting period following loss of income, and duration.

2. **Unemployment retention benefits**, such as wage subsidies or furlough schemes, which provide support to incomes in the case of temporary loss of work or reduction in working hours without breaking the employment relationship. They can be financed through general taxation, contributions, loans, and donor assistance. Unemployment protection schemes are typically linked to active labour market policies (ALMP) and employment services such as job matching services and skills training to support return to work.
2. Country Experiences and Lessons

Across the world, lockdown and social distancing measures to control the spread of COVID-19 had a profound effect on incomes and employment. In Bangladesh, five million jobs were estimated to have been lost by 2021, with the ready-made garment (RMG) sector most severely affected. In Sri Lanka, having already faced a series of crises including bombings in 2019, the pandemic placed significant strain on the tourism industry, resulting in economic collapse and civil unrest in 2022. In Peru, more than two million people had lost their jobs by the end of 2020, and the average monthly income fell by 11 per cent. In Ecuador, one million jobs were estimated to have been lost, with tourism, commerce, and services most affected. This section focuses first on the short-term measures taken by the four countries to provide employment and income security following the pandemic, before looking at the process for development and design (or reform) of long-term employment protection schemes, and the role of social dialogue in supporting that process.

2.1 Combining Short-Term Measures with Longer-Term Reforms

Social protection played an important role in responding to the impacts of the pandemic, but many social protection systems were fragmented with inadequate coverage and lacking any (effective) stabilisation mechanism for macroeconomic crises. In the absence of adequate social insurance, countries with no (or minimal) contributory social insurance schemes such as Bangladesh, Peru, and Sri Lanka, relied on a combination of short-term social assistance and non-contributory employment retention measures to alleviate the shorter-term impacts of the pandemic on employment and incomes (see below for country-specific examples).

In countries where social insurance was already established, it was possible to adjust eligibility and other regulations to increase access to unemployment benefits for a defined period. In Ecuador, for example, modifications to the existing unemployment insurance scheme allowed for a timelier and larger scale short-term response compared to the wage subsidies in Sri Lanka and Bangladesh. However, coverage still fell far short of the estimated one million people in unemployment, and a series of other measures were introduced including emergency cash transfers delivered through existing social assistance schemes.

CASE STUDIES:
Short-Term Responses to Employment and Wage Loss Due to the COVID-19 Pandemic

In Bangladesh, the primary response included interest-free loans to employers to pay wages, access to credit for small businesses, food assistance to vulnerable people, and expanding the coverage of cash transfer programmes from 15 million to nearly 40 million people. In addition, an Employment Retention Through Subsidy (ERTS) mechanism was introduced for the RMG sector which, by the end of 2021, had supported around 9,000 workers from 200 small and medium-sized enterprises (SMEs) to maintain their employment.

Ecuador established an unemployment insurance scheme in 2016, implemented by the Social Security Institute (ESISI). However, pre-pandemic, coverage remained low with around 25 per cent of the working age population eligible for benefits in case of unemployment. Following the pandemic, the government enacted the Humanitarian Support Law in June 2020 which temporarily adapted the scheme to extend...
The pandemic revealed that effective unemployment benefits are not only an essential part of a national social protection system during stable times, but have the potential to protect workers in sectors vulnerable to covariate shocks. In contrast to the unprecedented levels of expenditure on social assistance, policy makers recognised that establishing a contributory unemployment insurance scheme would be more cost-effective and act as an automatic stabilizer for the economy in case of future shocks. The pandemic generated political commitment to establish or reform unemployment benefit schemes, with policy proposals put forward early in the crisis. In Bangladesh, for example, a high-level meeting in April 2020 agreed the tax-financed stimulus package as a short-term response, but also led to agreement between government and employers’ and workers’ organisations to initiate development of an unemployment insurance scheme. In Ecuador, the short-term adaptations to unemployment insurance under the Humanitarian Support Law created policy space for more extensive reforms. During the first few months of the pandemic, discussions were held between the Ministry of Economy and Finance (MOEF), Ministry of Labour (MOL), and EISS on how to improve the coverage and sustainability of the scheme in the long-term.

Prior to the pandemic, Peru had several social insurance schemes covering old age, death, illness, and work injury, but no unemployment insurance. Approximately 26 per cent of the employed population contributed to social security. Alongside social assistance, several measures were introduced to support workers, including withdrawal of pension funds and individual savings accounts legally intended to cover employment termination payments, and soft loans to companies to maintain jobs and productive capacity, although these were found to have limited impacts.16

In Sri Lanka, a short-term wage subsidy was introduced by the Sri Lankan Tourism Development Authority (SLTDA) using existing capital from the tourism levy fee. Support was targeted through the existing registry of businesses and employees. Following concerns raised by workers’ groups that this would exclude informal sector workers, a campaign was launched to increase registration and the registration process was simplified and moved online. The wage subsidy reached approximately 10,000 employees, but only started implementation in 2022.17

**KEY LESSONS:**

**Lay the foundations:** The experiences in all these countries show that there was political appetite for introducing or reforming unemployment protection early in the pandemic, and recognition of the lack of social protection measures in the case of complete or partial job loss, including for workers in formal employment. Proposals were introduced at high-level meetings within the first weeks and months of the crisis. Contributory and tax-funded unemployment protection measures, as part of comprehensive social protection systems, can provide effective protection from covariate shocks and act as an automatic stabiliser for the economy if established prior to the crisis.
Plan for Alternative Measures: At the same time, due to the limited coverage of social insurance schemes in countries with a large share of informal employment, unemployment insurance did not play a significant role in responding to the pandemic, and all four countries had to introduce temporary tax- and donor-financed employment retention and social assistance schemes. As well as strengthening the culture and institutions of social insurance and ALMPs, it is necessary to plan for a range of alternative measures to prevent unemployment and protect the unemployed during crises.

2.2 Development and Design of Long-Term Unemployment Protection Schemes

Approaches to the design and development of unemployment protection schemes in the four countries have been shaped by several factors including the structure of the labour market and high level of informality, the level of institutional capacity especially in deploying ALMPs, the maturity of the social security system, and the policy and political environment.

The different country contexts influenced different approaches towards introducing unemployment protection measures (see below for country-specific examples). First, the pace of reforms varied depending on the institutional capacity and maturity of the existing social protection systems. In Bangladesh, for example, reforms have proceeded more slowly with a greater focus on building consensus, strengthening the capacity of government and employers’ and workers’ organisations, and establishing an evidence base. Second, in some cases, there was a need to focus on building operational capacity. In Bangladesh, work is underway to develop a management information system (MIS) that will serve multiple social insurance schemes. Third, while all four countries have worked on strengthening policy frameworks, in some cases this meant developing national policies or strategic frameworks, while others have focused on assessing and initiating ratification of the core international conventions on social protection and employment.

Experiences in the four countries also highlight that several dimensions of programme design vary according to context. First, the proposed scale and coverage of unemployment benefits can depend on existing institutional capacity. In Peru, the ambition is to establish a nationwide scheme for all workers in the formal sector, while encouraging further labour formalisation. However, in Sri Lanka, the initial proposal focuses on the tourism sector, which is at particularly high risk to external shocks and where there is existing institutional capacity. Meanwhile, Ecuador already has a nationwide scheme, so their focus is on reform of regulations and the contribution model to increase participation rates. Second, institutional arrangements for governance and management of the schemes differ. Most notably in Sri Lanka, the initial scheme will be managed by the Sri Lankan Tourism Development Authority (SLTDA) before being transitioned to the Ministry of Labour and Foreign Employment (MOLFE). Third, the proposed financing models differ in terms of funding sources. Like Ecuador’s existing scheme, Peru and Bangladesh are considering a combination of employer and employee contributions (the precise proportion of contributions will always be context specific). However, in Sri Lanka, a tourist tax may either partially or wholly fund the proposed unemployment benefit scheme.
CASE STUDIES:
Approaches to the Development and Design of Unemployment Protection Schemes

In **Bangladesh**, low institutional capacity and limited experience of social insurance has meant that developing an unemployment insurance scheme has involved a longer process of evidence generation including feasibility assessments, programming frameworks, policy papers, and technical notes, while building consensus and the capacity of government and employers’ and workers’ organisations. At the same time, steps have been taken to strengthen policy and operational systems including the launch of a National Social Security Strategy (2022-26) with a vision to introduce the National Social Insurance Scheme (NSIS) and development of an MIS as for implementing both employment injury insurance (piloted in 2022) and unemployment insurance.

In **Ecuador**, the ESSI, MOL, and employers’ and workers’ organisations have collaborated to develop proposals to increase coverage and strengthen the sustainability of the unemployment insurance scheme in line with ILO Conventions No.102 and No.168. In 2018, it was estimated that coverage was less than one quarter of the working age population in the case of unemployment because of weaknesses in the contribution structure, qualifying conditions, and waiting period for benefits. However, more recent estimates suggest that coverage had increased to nearly 33 per cent. Three scenarios have been developed with the potential to triple coverage of the scheme.

In **Peru**, a comprehensive unemployment insurance scheme has been designed by a technical team from the Ministry of Labour and Employment Promotion (MOLEP) and the MOF, with inputs from social partners. The intention is to cover all formal sector workers while encouraging further labour formalisation. At the same time, trade unions have initiated the ratification of Chapter IV on unemployment benefits of ILO Convention No.102 and ILO Convention No.168, and MOLEP has initiated an analysis of the main gaps between these conventions and national laws. The proposals have been positively received by the parliamentary Labour and Social Security Committee, but political instability and other challenges have thus far delayed implementation.

In **Sri Lanka**, the proposal for unemployment benefits has initially focused on the hard-hit tourism sector where the need was greatest and the SLTDA was considered to have sufficient capacity to implement the scheme. Contributions to the scheme may come from a US$1 tourist tax in addition to employers and workers. In the long run, the scheme will be transferred to the MOL once a national scheme has been established. The proposal has been endorsed by the Ministry of Tourism and employers’ and workers’ organisations, but is awaiting cabinet approval. In parallel, the country is working on transitioning this first experience to a more comprehensive reform of social insurance-based unemployment benefits anchored in the Employees’ Trust Fund. The design has been endorsed by MOLFE and the President’s Office.
A lack of ALMPs and employment services is often seen as one of the major barriers to introducing unemployment benefits schemes. In line with the ILO Employment Promotion and Protection against Unemployment Recommendation No.176 (1988), all four countries have proposed to strengthen, expand and coordinate ALMPs and employment services such as skills training and support for job placement, and to enhance linkages with (proposed) unemployment benefit schemes. By supporting job retention and (re-)entry into the labour market, activation policies – including training, certification of competencies, and job search services – are an important complement to unemployment protection. Specific proposals include improving the service-worker interface, promotion of unemployment insurance through employment services, and plans to extend employment services to all workers (regardless of social insurance status) or to those receiving state benefits (see below for examples from Ecuador and Peru).

### CASE STUDIES:
**Linking Unemployment Protection and Active Labour Market Programmes**

In **Ecuador**, strengthening the link between ALMPs and unemployment insurance is a key objective of the post-pandemic social protection strategy. This has led to improvements to the national job seeker platform and integration of information to promote understanding of unemployment insurance including a contribution and benefits calculator. Long-term proposals aim to develop new institutional architecture for employment services and programmes under the MOL to benefit all workers regardless of social insurance status, thus increasing levels of formalisation of employment.

Similarly, the proposed unemployment insurance scheme in **Peru** has been designed in a way to support integration into jobs suitable to workers’ interests and needs through an “employability pathway” provided by public employment services. The proposal highlights the importance of providing activation services to any citizen who receives a state benefit due to unemployment or poverty, thus extending support to the informal sector, managed through a single-entry doorway for both insurance and employment services. The individualised approach enables referrals to the most relevant services such as training, certification of competencies, and job searches.

### KEY LESSONS:

**Context Matters:** Several variations in the approach to developing unemployment protection emerged from the four countries, highlighting the need to adapt approaches depending on the structure of the labour market, unemployment levels and vulnerability to shocks, the maturity of the social protection system, and other factors. Variations in approach include the level of coverage and priority sectors, institutional arrangements, and funding models, as well as the time required to build consensus and institutional capacities.

**Back to Work:** Unemployment benefits and ALMPs go hand-in-hand. Following the pandemic there were strong calls from workers to implement programmes to support job retention and re-entry into the labour market to counter economic slowdowns due to restrictive measures and drops in trade. This focus on returning...
2.3 The Role of Social Dialogue in Developing Unemployment Protection Schemes

Social dialogue is a critical process for designing, establishing, and implementing social protection systems including unemployment protection. Governments, employers, and workers all have an interest in the outcomes of unemployment protection and should have a say in specific design parameters including qualifying criteria, contributions, levels and duration of benefits, and links to employment services. In Bangladesh, Ecuador, Peru, and Sri Lanka, governments and employers’ and workers’ representatives discussed the possible development or reform of unemployment protection schemes through a process of social dialogue. Experiences in the four countries reveal common approaches to social dialogue that have been effective as well as adaptations stemming from the political and institutional context (see below for country specific examples).

- In all four countries, social dialogue was initiated early following the pandemic and maintained throughout the process of policy ideation and formulation. Experiences in Ecuador and Sri Lanka, where relations between the government and social partners have not been optimal, suggest that major crises can provide opportunities to (re)initiate processes of social dialogue while there is a stronger sense of shared risk and the need for collective action.

- In all four countries, social dialogue consisted of a combination of bilateral and tripartite meetings with different levels of formality. Importantly, a series of high-level meetings involving the tripartite stakeholders helped to initiate the development and strengthening of unemployment benefit schemes, mark milestones in the process, and maintain political momentum.

- Many countries have formal institutional structures for social dialogue such as the National Labour Advisory Council (NLAC) in Sri Lanka. However, in the case where such institutions do not exist or where sector-specific policy reforms are being undertaken, it is sometimes necessary to create new institutions. For example, in Sri Lanka, a social protection subcommittee was created under the NLAC specifically for the tourist sector unemployment benefits scheme.

- In some contexts, it can be necessary to rely on informal spaces for social dialogue. This was the case in Bangladesh, where there was little history of social dialogue, and in Ecuador, where formal relations between the government and social partners had been strained.

- In all four countries, production of credible evidence from a wide range of sources formed a vital part of the social dialogue process. Evidence was sourced from a range of different perspectives including social partners and impartial external actors such as academia.
CASE STUDIES:
Social dialogue

In Bangladesh, the concept of social dialogue is not strongly embedded in policy making and opportunities for employers’ and workers’ participation has historically been limited. As a formal mechanism for social dialogue was not yet established for social insurance, developing a culture of social dialogue formed an essential part of the early stages of the process. ILO supported all three stakeholders in bilateral discussions to lay the groundwork prior to formal tripartite consultations. Another enabling factor was the production of evidence and validation of different viewpoints and perspectives including the publication of the views of social partners alongside other technical assessments and proposals. Given the nascent stage of social insurance in Bangladesh, social dialogue helped stakeholders to develop common terminology and to understand the benefits of unemployment insurance and the importance of links to ALMPs.

Ecuador has an existing mechanism for social dialogue related to labour policy, however, there have been challenges in terms of the legitimacy and representation of workers’ organisations. The process around post-COVID reforms to unemployment insurance signified the first time that the EISS had engaged in social dialogue with partners. Technical documents formed an important basis for workers’ and employers’ representatives to engage in the process. An assessment of the gaps between national laws and ILO standards related to unemployment protection supported social partners’ advocacy with government to align the scheme with ILO Conventions No.102 and No.168. The inclusion of external actors from academia also helped to bring a wider range of (non-partisan) views.

In Peru, social dialogue is institutionalised in the National Council for Labour and Employment Promotion (NCLEP). However, since 2018, workers’ organisations have not participated due to policy disagreements with the government. Complementary spaces for social dialogue had to be constructed alongside the policy development process undertaken by the inter-ministerial technical team. Workers’ and employers’ representatives participated through workshops, webinars, and other forms of consultation, which utilized a range of information materials to promote a shared understanding of the proposals. Workers’ representatives gained commitments from MOLEP to examine the possible ratification of ILO Convention No.168 and Article 4 of Convention No.102 to ensure the future enactment of the law on unemployment insurance.

In Sri Lanka, the National Labour Advisory Council (NLAC) was established in 1994 as the mechanism for tripartite consultations relating to labour and social policies and standards. The NLAC was engaged for consultation on both the tourist sector wage subsidy and unemployment benefits scheme. For the latter, the MOL created a new social protection sub-committee under the NLAC. Relations between workers, employers, and government in Sri Lanka have been challenging in the past. However, the unprecedented unemployment crisis within the tourism sector and the importance of the sector to the economy generated consensus around the proposed scheme. Through social dialogue, government concerns about financial viability were addressed by the proposal to use the existing tourist levy fund for the wage subsidy, and workers’ representatives were able to voice concerns about the lack of support to workers in the informal economy.
KEY LESSONS:

Create the Space: In some cases, there are strong existing platforms for social dialogue that enable employers’ and workers’ representatives to engage in the development of unemployment protection schemes. Where these platforms do not exist or are not functional, it is important to either establish a platform or develop more informal spaces for social dialogue to take place. Where necessary, a culture of tripartite dialogue should be developed through consistent engagement at different levels through bilateral consultation, technical seminars, trainings, and high-level meetings.

Build a Foundation of Evidence: A strong evidence base including actuarial estimates, review of labour market interventions, and legal analysis, was vital for creating shared understanding and for workers and employers to advocate for policy reforms through credible engagement with government. Engaging external actors, such as academia, can bring added credibility and a non-partisan perspective to the table.
Endnotes

1. The SPaN Guidance Package is available [here](#).
2. More information on the SP-PFM programme is available [here](#). Given the timing of SP-PFM programme, the country examples relate to responses to the COVID-19 pandemic rather than more acute humanitarian crises.
8. This count does not include the “automatic” responses through existing social protection schemes (both contributory and non-contributory), as it records only policy change ([ILO Social Protection Monitor](#)). Globally, the most common mechanism for responding to the impact of the pandemic on incomes was social assistance: see Gentilini, U., et al. (2022) Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures. World Bank, Washington D.C. [Link](#).
11. ILO (no date) ILO Social Protection Platform: Ecuador. [Link](#).
12. SP-PFM (2021) Appendix 14, Ecuador. [Link](#).
13. ILO (no date) ILO Social Protection Platform: Bangladesh. [Link](#).
15. ILO (no date) ILO Social Protection Platform: Ecuador. [Link](#).
17. SP-PFM (2021) Appendix 19, Sri Lanka. [Link](#).
18. See SP-PFM Bangladesh for all documents.
19. SP-PFM (2021) Appendix 11, Bangladesh. [Link](#).
21. ILO (no date) World Social Protection Data Dashboards. [Link](#).
22. SP-PFM (2021) Appendix 14, Ecuador. [Link](#).
23. SP-PFM (2021) Appendix 18, Peru. [Link](#).
26. SP-PFM (2021) Appendix 14, Ecuador. [Link](#).
27. ILO (2022) Propuesta de desarrollo e implementación del Esquema Integral de Protección ante el Desempleo. Proposal for the development and implementation of the Comprehensive Unemployment Protection Scheme in Peru (in Spanish). ILO, Lima. [Link](#).
29. See ILO (no date) ‘Social Dialogue.’ [Link](#).
31. ILO (forthcoming) Comparative review of national laws and requirements of Convention No.102 in Ecuador.
32. ILO (no date) Social Protection Platform: Peru. [Link](#); Respondent interview.
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