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Government of
the Netherlands



Social Security for All Men and Women

*A source book for extending social security coverage in
Vanuatu: options and plans*

February 2006

International Labour Office, Suva, Fiji

ILO Thirty years in the Pacific 1975 - 2005

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Social Security for All Men and Women - The feasibility of extending social security in Vanuatu

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Foreword

Social security is widely accepted as the protection which society provides for its members, through a series of public measures to (i) offset the absence or substantial reduction of income from work resulting from the contingencies of sickness, maternity, employment injury, unemployment, invalidity, old age, and death, (ii) provide them with health care, and (iii) provide financial support to families with children.

These are the basic contingencies specified in the Social Security (Minimum Standards) Convention, No.102 of 1952 which is used by developing countries as a guide in the planning of social security systems.

Lack of adequate social security is one of the greatest challenges facing the countries in the Pacific. The ILO views that the extension of social security is an essential component of the ILOs effort for the fulfilment of Decent Work for all men and women.

The ILO has sought to assist in this process of change and improvement through the project *Subregional Initiative on Social Security for the Pacific Island Countries* that involved five pacific island countries – Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu – and was funded by the Netherlands Government.

This publication is a consolidation of the research papers and feasibility studies produced by the project. The scope of these reports covers areas of critical importance in extending social security coverage to all workers. These include overview of social security, extension of social security, formal employment sector and informal economy surveys, feasibility studies of pensions, unemployment insurance, traditional systems, workers' compensation, social assistance, maternity protection and health insurance. As a cross-cutting issue, focus on gender equality has been underpinned for all the feasibility studies.

Additional studies considered operations and information technology. The studies were used as a basis of the National Action Plan for Social Security.

We believe that awareness about these issues, and discussion about realistic steps to be taken to improve access to social security and benefits available, are essential to the development of an effective action plan to improve social protection in Vanuatu.

We wish to thank and acknowledge the support provided by the ILOs tripartite partners, social security organizations, National Project Coordinators and project staff as they facilitated the access for the project team to the various stakeholders in the field of social security. The ILO is grateful for the support of the Netherlands Government throughout the project.

Finally, we would like to congratulate the persons involved in the project and in the preparation of this publication. In particular, we would like to thank Mr. John Angelini, the Chief Technical Advisor of the project, and the expert consultants who have prepared the reports.

We trust that this publication will be a valuable reference source for those concerned with the development of a better social security system now and in the future.

Linda Wirth
Director
ILO Subregional Office
for South-East Asia and the Pacific
Manila, Philippines

A.M. Zakaria
Director
ILO Office for the South Pacific
Suva, Fiji

February 2006

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This book is a product of teamwork. The following people worked for the ILO project *Subregional Initiative on Social Security for the Pacific Island Countries*.

Project management:

Mr. John Angelini Chief Technical Adviser (Team Leader)

Consultants and technical responsibility in the Project:

Mr. Afsar Akal	Health Insurance
Mr. Winston Chan	Operations and IT
Mr. Warren McGillivray	Pensions
Mr. David Preston	Social Assistance and Maternity Protection
Dr. Steven Ratuva	Traditional Social Protection Systems
Mr. Kenneth Thompson	Employment Injury Benefit and Unemployment Benefit
Mr. Mike Whitelaw	Operations and IT

National Project Coordinators:

Ms. Anne Nacola	Fiji
Mr. Taatoa Kaiteie	Kiribati
Mr. Uili Matafeo	Samoa
Mr. Leslie Tamea	Solomon Islands (August 2004 – December 2004)
Ms. Ruth Fugui	Solomon Islands (from January 2005)
Mr. Marokon Alilee	Vanuatu

Technical backstopping by specialists of ILO SRO-Manila:

Mr. Kenichi Hirose	Social Protection Specialist (Project Coordinator)
Ms. Naomi Cassirer	Gender Specialist

Project staff:

Ms. Adsivia Qoro	Gender Specialist (July 2005 - January 2006)
Ms. Salaseini Tupou	Gender Specialist (August 2004 – March 2005)
Ms. Arieta Moceica	Gender Specialist (April 2005 – May 2005)
Ms. Sereana Cerelala	Project Assistant.

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Some of the country data on demography, economy and health status have been extracted from publications by various international organizations including ADB, ILO, SPC, UNDP, UNFPA and from local sources in each country. The team would like to thank these sources for their direct or implied permission to use those resources.

Introduction – user’s guide to the sourcebook

This publication is intended to serve as a reference book for planners to formulate the policy and strategy to extend social security coverage to all of the population of Vanuatu.

As part of the ILO project *Subregional Initiative on Social Security for the Pacific Island Countries*, a series of research papers and feasibility studies has been produced.

The purpose of this publication is to present these reports in a consolidated and readable form. The remainder of this sourcebook has been divided into four Parts:

Part I comprises ten chapters dealing with a general review of social security and related issues. Chapter 1 sets out the basic framework of the project. Chapter 2 discusses key issues in social security such as the needs, economic effects and financing options of social security. Chapter 3 is devoted to analysing the challenges and strategies for extending social security coverage. Chapter 4 provides an overview of demographic and economic context and a review of the social security system in Vanuatu. Chapter 5 presents and analyses the results of surveys of workers in both the informal and formal economies. Chapter 6 looks into traditional social protection systems in Vanuatu. This is complemented by Chapter 7 which discusses the application of ILO Convention No. 169 for indigenous and tribal peoples. Part I concludes with Chapter 8 which focuses on gender equality in general and on the social security system in Vanuatu in particular.

Part II contains ten feasibility studies on extending social security coverage and covers core results of policy analysis. Chapter 9 focuses on feasibility of introducing social health insurance to Vanuatu. Chapter 10 describes key principle issues on social security pensions and discusses their implications for Vanuatu. Chapter 11 sets out basic principles on unemployment protection and Chapter 12 analyses the feasibility of an unemployment insurance scheme for Vanuatu. Chapters 13 and 14 are devoted respectively to the principles of social assistance and the feasibility of its introduction to Vanuatu. Chapters 15 and 16 deal with workers’ compensation schemes and are organised in a

similar structure. Chapter 17 focuses on maternity protection as part of gender-specific intervention. Chapter 18 is a report on the operations and information technology of the Vanuatu National Provident Fund.

Part III consists of Chapter 19 on a National Action Plan for Social Security in Vanuatu and represents the plans, road map and implementation of the policies developed by the feasibility studies.

Part IV supplements with ten Annexes.

We welcome comments and suggestions on this sourcebook. For further information, please contact us at:

ILO Subregional Office for South-East Asia and the Pacific
19th Floor, Yuchengco Tower, RCBC Plaza,
6819 Ayala Avenue, 1229 Makati City
P.O. Box 4959 Makati City, Philippines
Telephone: (632) 580 9900
Fax: (632) 580 9999
E-mail: manila@ilomnl.org.ph
Website: www.ilo.org/manila

ILO Suva Office
8th Floor, FNPF Place, Victoria Parade
PO Box 14500, Suva, Fiji Islands
Telephone: (679) 3313 866
Fax: (679) 3300 248
E-mail: suva@ilo.org
Website: www.ilo.org/suva

Other publications in this series:

Copies of *Social Security for All Men and Women – A sourcebook for extending social security coverage: options and plans* are available for the following Pacific Island Countries: Fiji, Kiribati, Samoa and Solomon Islands.

Electronic copies of these publications are available from the project webpage at:
www.ilosuva.org/

Abbreviations

ADB	Asian Development Bank	NERRDP	Solomon Islands - National Economic Recovery, Reform & Development Plan 2003-06
APNGCR	Asia Pacific Network for Global Change Research (New Zealand)	NGO	Non-Governmental Organisation
BPA	Beijing Platform for Action	NIB	National Insurance Board
CCA	Common Country Assessment	NL	National Library
CDF	Cooperative Development Fund	NM	National Museum
CEDAW	Convention on Elimination of All Forms of Discrimination Against Women (UN)	NSO	National Statistics Office
CESR	Committee on Economic, Social and Cultural Rights (UN)	NVMS	Ni-Vanuatu Micro Finance Scheme
CRC	Committee on Rights of the Child (UN)	NZODA	New Zealand Official Development Assistance
CRP	Comprehensive Reform Program	PACER	Pacific Agreement on Closer Economic Relations
CROP	Council of Regional Organisations of the Pacific	PANG	Pacific Network on Globalisation
CSW	Commission on the Status of Women	PCIT	Pacific Island Countries and Territories
CTA	Chief Technical Advisor	PCRC	Pacific Concerns Resource Centre
DFID	Department for International Development (UK)	PIC	Pacific Island Country
DESP	Department of Economic and Sector Planning	PICTA	Pacific Island Countries Trade Agreement
EEZ	Exclusive Economic Zone	PICTs	Pacific Island Countries and Territories
EFA	Education for All (UNESCO)	PPA	Pacific Platform for Action
EIA	Environmental Impact Assessment	PTI	Permanent Total Disablement
ESCAP	Economic and Social Commission for Asia and the Pacific (UN)	RAMSI	Regional Assistance Mission in Solomon Islands
EU	European Union	RERF	Revenue Equalisation Reserve Fund
EVI	Environmental (or Economic) Vulnerability Index	RETA	Regional Technical Assistance (ADB)
FAO	Food and Agricultural Organisation	RBV	Reserve Bank of Vanuatu
FEMM	Forum Economic Ministers' Meeting	SINPF	Solomon Islands National Provident Fund
FIC	Forum Island Country	SOE	State-Owned Enterprise
FNPF	Fiji National Provident Fund	SNPF	Samoa National Provident Fund
Forsec	Pacific Islands Forum Secretariat	SPC	Secretariat of the Pacific Community
FTA	Free Trade Agreement	SPREP	South Pacific Regional Environment Programme
GDP	Gross Domestic Product	SSIGO	State Social Insurance General Office
GNP	Gross National Product	SSPIC	ILO project Social Security in Pacific Island Countries i.e. this project
HDR	Human Development Report (UNDP)	STD	Sexually Transmitted Disease
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immunodeficiency Syndrome	UNCTAD	United Nations Conference for Trade and Development
HRC	Human Rights Committee (UN)	UNDAF	United Nations Development Assistance Framework
ICT	Information and Communication Technologies	UNDESA	United Nations Department for Economic and Social Affairs
ILO	International Labour Organisation	UNDP	United Nations Development Programme
IMF	International Monetary Fund	UNDSPD	United Nations Division for Social Policy and Development
KCUL	Kiribati Credit Union League	UNESCO	United Nations Educational, Scientific and Cultural Organisation
KPF	Kiribati Provident Fund	UNFPA	United Nations Population Fund
LDC	Least Developed Country	UNICEF	United Nations Children's Fund
LMS	Labour Market Survey	UNIFEM	United Nations Development Fund for Women
MDG	Millennium Development Goals	USP	University of the South Pacific
METT	Ministry of Education, Training & Technology (Kiribati)	VANGO	Vanuatu Association of NGOs
MFI	Microfinance institution	VCC	Vanuatu Cultural Centre
MIU	Microinsurance unit	VCHSS	Vanuatu Cultural & Historical Site Survey
MOF	Ministry of Finance	VFSC	Vanuatu Financial Services Commission
MOU	Memorandum of Understanding	VNPF	Vanuatu National Provident Fund
MOH	Ministry of Health	VRDTCA	Vanuatu Rural Development & Training Centre
NAPDW	ILOs National Action Plans for Decent Work	VUVU	Vanuatu Teachers Union
NBV	National Bank of Vanuatu	WB	World Bank
NCC	National Council of Chiefs	WDR	World Development Report (WB)
NDEC	National Disaster Executive Committee	WHO	World Health Organisation
NDS	National Development Strategy		

Definitions

<p>Actuary A professional who compiles statistics on events and key social and financial parameters to estimate the probabilities of events occurring in order to establish contributions (premiums) and benefits.</p> <p>Adverse Selection The tendency to only voluntarily insure against the high risks and remain uninsured against lower risk. For example young health people not choosing to take out health insurance until their risks increase with old age.</p> <p>Contribution Payment of an agreed sum of money by a member to a social insurance scheme in return for a specified benefit in return.</p> <p>Defined Benefit The amount, usually formula based, guaranteed to each person who meets defined entitlement conditions</p> <p>Defined Contribution When the benefit is limited to what has been paid into the fund or contributed (plus interest)</p> <p>Formal Employment Sector The formal sector represents the more administratively visible part of the economy and society, namely the public and private corporate sector and comprises enterprises and the professional self-employed that have been accorded Legal Status and are regarded as legal entities</p> <p>Health Care Providers Doctors, nurses, hospitals, clinics, laboratories, imaging facilities, pharmacies etc and other deliverers of medical services.</p> <p>Informal Economy The informal economy comprises those individuals and employers that have not been accorded legal status and have commenced their operations often without the sanction or knowledge of the local authorities (e.g. cottage workers)</p> <p>Microfinance is the provision of financial services to the poor who would otherwise be unable to satisfy the normal equity requirements for loans.</p> <p>Microinsurance A mechanism for pooling community risks and resources to protect participating members against the financial consequences of mutually determined risks (usually health)</p> <p>Morbidity Refers to illness from a specific disease or cause or from all diseases</p> <p>Mortality Refers to death from a specified disease or from all diseases</p> <p>Premium Is an amount paid to an insurance carrier for providing insurance coverage under terms of a contract.</p> <p>Primary Health Care The first level of contact by individuals, families and communities with the health system</p>	<p>Reserves Funds held either for a possible unknown event (contingency funds) or because of regulation.</p> <p>Social Exclusion Inadequate or unequal participation in social life, or exclusion from a place in the consumer society, often linked to the social role of employment at work</p> <p>Social Insurance An insurance program that is shaped by broader social objectives than just by self interest of each individual principal or agent, while retaining insurance principles that persons are insured against a definite risk</p> <p>Social Protection Is a newer, broader term that includes all of Social Security; it is firmly related to poverty reduction (unlike Social Insurance but like Social Assistance) and includes ensuring access to health care whether through public, private or community based initiatives.</p> <p>Social Safety Net (SSN) is more recent and associated with short-term policies to counter structural and economic adjustments such as the transition from command to market economies in the former soviet states and economic crises such as the one that occurred in Asia in 1997. This definition was sponsored primarily by the World Bank and its social funds that were essentially targeted social assistance schemes provided for a limited term and were intended to build local capacity and improve governance in developing countries.</p> <p>Social Security Is one of the most common terms used to describe all social (not economic) programs used to reduce poverty and underdevelopment in developing countries. Its origins date to the ILO 1952 International Labour Conference where the Social Security minimum standards (No. 102) were accepted. Social Security is an umbrella term that includes Social Insurance (systems where workers and employers make contributions to insure against specific life events) and Social Assistance (more likely to be government sponsored, non-contributory and designed to meet basic needs rather than specific contingencies).</p> <p>Solidarity Principle Applying rules that spread risks and resources across members of a group in a way that provides both insurance coverage and egalitarian distribution.</p>
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Exchange rates

Country	Currency	1 USD
Australia/Kiribati	AUD	1.3404
Fiji	FJD	1.7229
Hong Kong	HKD	7.7541
India	INR	44.4550
Indonesia	IDR	9,499.15
Japan	JPY	115.2330
Malaysia	MYR	3.7520
Pakistan	PKR	59.8750
Philippines	PHP	52.84500
Samoa	WST	2.7266
Singapore	SGD	1.6306
Solomon Islands	SBD	7.2992
Sri Lanka	LKR	102.1650
Vanuatu	VUV	112.0000

Source: www.xe.com Universal Currency Converter 19 January 2006



PART I

INTRODUCTION and SOCIAL SECURITY REVIEW

Chapter 1 The Project – Rationale and Implementation

Chapter 2 Issues in Social Security

Chapter 3 Extension of Social Security Coverage

Chapter 4 Vanuatu Country Overview and Social Security Review

Chapter 5 Survey of Workers in the Informal Economy and Formal Employment Sector

Chapter 6 Traditional Social Protection Systems in the Pacific – Culture, Customs and Safety Nets

Chapter 7 ILO Convention 169 for Indigenous and Tribal Peoples - Application to indigenous communities in Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu

Chapter 8 Gender Issues and Social Security in Vanuatu

Chapter 1 The Project – Rationale and Implementation

1.1 Background

Social security is not only a basic need; it is a basic human right. However, in the countries in the Pacific sub-region, only limited numbers of people have access to limited protection provided through social security systems.

Lack of adequate social security represents one of the greatest challenges facing the countries in the Pacific. In the absence of comprehensive social security cover by the national system, the ultimate safety net is still provided by traditional social practices and family support, which tend to weaken as the society transforms into a modern one. The absence of well-functioning social security systems is a major cause of poverty, ill health and high mortality.

In terms of social and economic development, Pacific Island countries are confronted with a number of impeding factors such as smallness, remoteness, geographic dispersion, political instability, limited domestic markets, dependence on foreign aid and external conditions, environmental concerns and vulnerability to natural disasters. In the context of globalisation, these factors create growing regional inequalities, rendering the countries in the Pacific sub-region vulnerable to relegation into the backwater of the rapid changes in the global development.

Social security systems in the Pacific sub-region are at different stages of the development. However, they have the following major problems in common.

1.2 Limited coverage and inadequate benefits

Social security coverage in these countries is limited to workers in the formal employment sector which represents only a small fraction of working population. In particular, a large majority of workers in the informal economy are excluded from social security schemes.

The scope and level of social security benefits are also inadequate. In most Pacific Island countries, National Provident Funds and Workers' Compensation are the only available social

security benefits, which were implemented in the pre-independence days. Other types of much needed benefits such as health care, sickness, maternity, unemployment benefits are not available. Furthermore, the level of benefits provided from the existing schemes is not sufficient to provide adequate protection for the workers and their families.

A straightforward savings scheme of the Provident Fund type fails to provide guaranteed national minimum benefit, as there is no pooling of risks. The members of the provident funds at retirement usually have no option but to receive their benefits as a lump-sum. Lump-sum benefits are vulnerable to pressures for speedy consumption by the recipients and their extended families.

Workers' Compensation schemes are still based on employers' liability, which does not ensure full compliance particularly by employers of small sized enterprises. Compensation is usually made as a one-off lump sum payment only in the event of accident or disease directly resulting from work (excluding accidents during commutation), and benefits for rehabilitation, prevention and promotion of occupational safety and health are mostly not provided.

Basic medical care is provided free by the Government for all nationals and includes hospital confinement, professional services, laboratory examinations and medicine. However, because of the inability of Government to allocate enough budget, the quality of public health services is poor. In most remote islands, people go to clinics that may be staffed only by a trained nurse. Women still depend at childbirth on midwives or traditional birth attendants. Major hospital services at tertiary level such as heart operations and dialysis are only available in one or two hospitals in the capital cities. For emergency cases, evacuation to Australia, Hawaii and New Zealand is possible under the referral system only if a panel of doctors approve the case to be *urgent and treatable*.

1.3 Link to decent work approach at national level

ILO member states in the Pacific sub-region have been active in working with the ILO to develop and implement National Action Plans for Decent Work (NAPDW). The outcomes were presented at the Sub-regional Tripartite Forum on Decent Work held in Auckland in October 2003 and at a further forum in Melbourne, Australia in April 2005 which provided an opportunity to consolidate the significant progress in promoting the Decent Work Agenda across the sub-region.

The project was undertaken within the framework of the NAPDW of the Pacific countries. In their NAPDW, the following problems have been identified by the ILO tripartite constituents as major Decent Work deficits in respect of social security:

- Limited coverage of social security, in particular for workers in the informal economy (Fiji, Kiribati, PNG, Solomon Islands);
- Inadequate scope and level of social security benefits (Fiji, Solomon Islands);
- Problems of governance and sustainability of social security system (PNG, Solomon Islands).

In response to these deficits, the National Action Plans for Decent work (NAPDW) prescribe the actions for ILO support to the development of a national strategy for extension of social security coverage and to provide technical support for improvements in financial governance, investment policy and administration of social security benefits.

1.4 National development frameworks

Social security is vital both in the socio-economic development and in poverty reduction. All Pacific Island countries have committed themselves to attaining the Millennium Development Goals. The ILO can make significant contributions to MDG Goal 1 of halving poverty by 2015, by assisting Pacific Island countries to extend social security schemes in order to increase the number of people who will be more resilient to social shocks and hence falling into poverty.

In **Vanuatu**, the Government's National Development Plan identifies one of its national goals as improved economic and social safety

nets for vulnerable groups and for women and children. The Vanuatu National Provident Fund (VNPF) seeks more technical assistance to review its financial viability since becoming one of the newest members of the ILO from the Pacific. The government has also requested direct assistance from the ILO to reform the existing workers compensation scheme which is also dated and based on employer liability using voluntary private insurance. Moreover, the following observations have been made.

1.5 Poverty reduction

Four out of the five countries covered by the SSPIC project – Kiribati, Samoa, Solomon Islands and Vanuatu – are listed by the UN as Least Developed Countries (LDC), with a low income (the GDP per capita is less than USD900 a year), human resource weaknesses and economic vulnerability.

Social security schemes usually incorporate provisions for focusing on income protection of the poor. One of the fundamental tasks of the social security schemes is for the state to perform income transfer to provide minimum income protection to those who live on less than the minimum income level. This concept is fully reflected in the ILO minimum standards convention No 102 (1952). However, as Provident Funds are the common type of social security system in the sub-region, the effect of redistribution is limited as this type of individual savings scheme entails little or no income redistribution or social solidarity and are in essence individual savings schemes managed by the fund. An effective policy is sought on how to introduce a guaranteed minimum benefit in the framework of the Provident Fund model.

In the absence of unemployment benefit or any organised form of social assistance, the existing schemes, notably the Provident Funds, act as de facto social safety nets by meeting the immediate need of cash for the people who experience unexpected adversities such as economic crises or social unrest. However, these withdrawals from the fund are at the expense of savings for retirement. This resultant limited retirement benefits result in more retired workers who need to rely on traditional family and community support. The SSPIC project also aims to extend the scope and impact of income protection benefits (social security).

In most Pacific countries, Provident Funds are also major financial institutions in the national economy and in some countries are in fact the largest single financial institutions. The assets invested by the Provident Funds constitute a significant portion of national wealth. In this way Provident Funds contribute to the capital accumulation in domestic financial markets. If the funds are properly invested in productive economic activities, they will also contribute to economic growth in the long term.

1.6 The Project Aims

The *Subregional Initiative on Social Security for the Pacific Island Countries* will contribute to better social and economic security for all members of society through improved coverage and efficiency of social security systems. It will also contribute to the promotion of gender equality.

The project aims are to:

- Formulate comprehensive country programmes on social security in the form of tripartite national action plans based on the needs assessment survey, financial and gender analyses, and take steps for their implementation;
- Improve the efficiency of existing social security organisations in providing services both at management and operational levels and enhance their capacity for the enforcement of the legislation and the management of the funds.

- Develop gender-mainstreamed and gender-specific policies and interventions in social security, which will lead to greater gender equality.

The project was implemented in three broad stages that included:

- A review of existing programs and systems that included surveys of the informal and formal economy workers and inputs from key tripartite stakeholders and the status of other associated programs like microfinance;
- Conduct of feasibility studies on priority benefits programs that included the technical rationale behind the range of typical social security programs and the feasibility of their implementation in the country. This will include a study on the existing traditional systems and how they impact on potential social security programs, particularly in the informal economy and how they can be strengthened to provide basic services; and
- Based on the feasibility studies and a second round of tripartite stakeholder inputs, the national action plans were developed. The output will include the technical and feasibility considerations produced in a reference manual format to facilitate future stages of social security reform.

Figure 1.1 Project overview

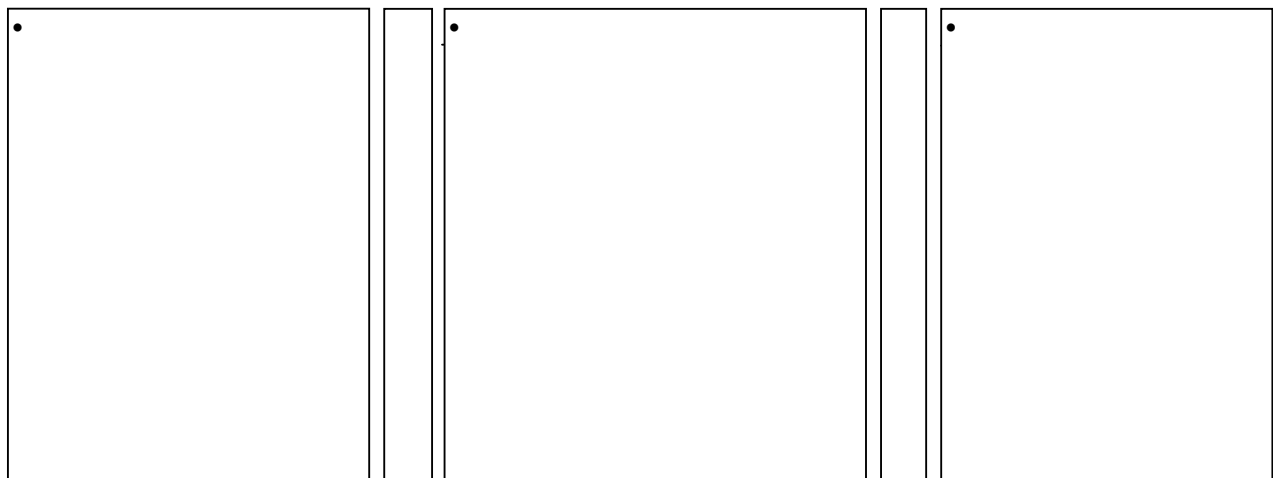
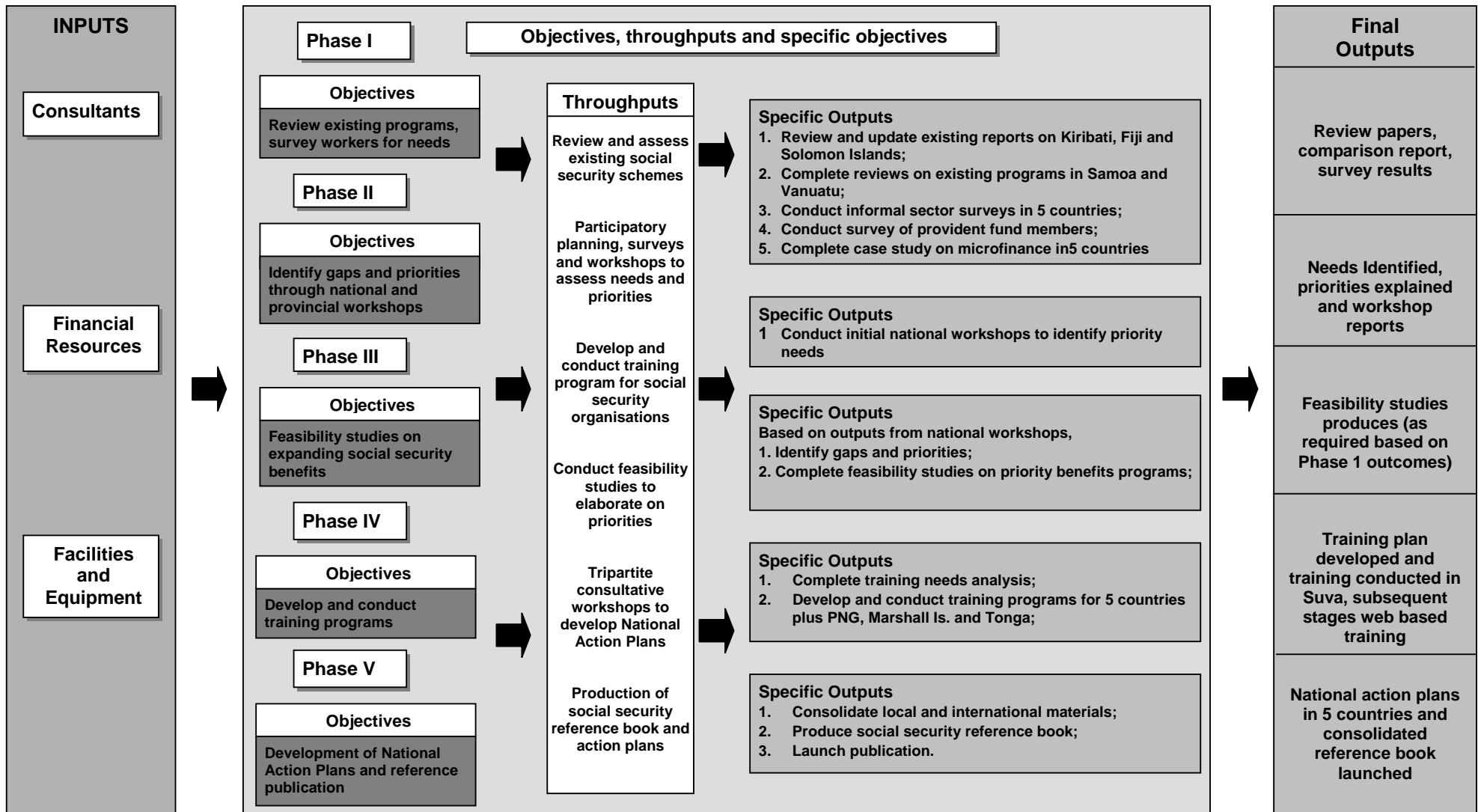


Figure 1.2 Conceptual Framework for Project Social Security in Pacific Island Countries



Chapter 2 Overview of Social Protection Systems

2.1 The scope of social security

Social security is widely accepted as the protection which society provides for its members, through a series of public measures to:

- offset the absence or substantial reduction of income from work resulting from the contingencies of sickness, maternity, employment injury, unemployment, invalidity, old age, and death,
- provide them with health care, and
- provide financial support to families with children.

These are the basic contingencies specified in the Social Security (Minimum Standards) Convention, No.102 of 1952 which is used by developing countries as a guide in the planning of social security systems.

The ILO in pursuit of its overall goal of achieving Decent Work for all men and women has adopted as one of its four strategic objectives: “Enhance the coverage and effectiveness of social protection for all.” The essential point is that coverage in this context refers to meaningful, appropriate as well as personal membership of a scheme. The three dimensions in social security coverage strategies are:

- population coverage;
- range of coverage, as regards the contingencies for which protection is provided; and
- level of benefit or the effectiveness of the system of protection.

Consequently it is necessary to take into account not only the contingencies which are covered but the method of organising the social protection. The main different methods of providing social security in developing countries are:

- social insurance (schemes financed by contributions that pool resources in separate funds for each branch of insurance),
- social assistance (tax-financed, non-contributory benefits, provided only to the vulnerable population),
- universal benefits (tax-financed benefits provided without being means-tested),
- employers’ liability provisions (obligations imposed by statute on employers to provide

benefits to workers in prescribed circumstances such as employment injury, sickness, maternity and termination of employment; and

- national provident funds (defined contribution schemes with individual accounts).

In the following sections, some key issues relating to social security are explained.

2.2 Why do we need social security?

People can achieve income security not only through productive employment, savings and accumulated assets (such as land and housing), but also through social protection mechanisms. These mechanisms function not only as a protective but also as a productive factor. Workers need income security to make long-term plans for themselves and their families and to prevent them from becoming trapped in a poverty cycle. Workers’ income security has also positive effects on the economy, since it makes effective demand more predictable and provides enterprises with a more productive and flexible workforce.

One of the fundamental rights of people is that they must have access to a minimum level of income security that ranges from provision of basic health services and basic food, shelter and educational rights in the poorest countries to more elaborate income security schemes in the industrialized countries. Everyone of working age has a responsibility to contribute to the social and economic progress of the community or country he or she lives in and should be given the opportunity to do so. In exchange, all have the right to a fair share of the income and wealth of the country or community.

Social security is said to discourage people from working and saving, to reduce international competitiveness and employment creation, and to encourage people to withdraw from the labour market prematurely. On the other hand, social security can also be seen to have a number of very positive economic effects. It can help to make people capable of earning an income and to increase their productive potential; it may help to

maintain effective demand at the national level; and it may help create conditions in which a market economy can flourish, notably by encouraging workers to accept innovation and change. Social security and decent employment are both necessary components for a market economy to provide income security for all. Social security is also designed to have important positive effects on society as a whole, by promoting social cohesion and a general feeling of security among its members.

It has been suggested by various commentators that social security contributes to economic growth by raising labour productivity and enhancing social stability. Various types of social security are particularly relevant to labour productivity:

Health care systems help to maintain workers in good health and to cure those who become sick. Poor health is a major cause of low productivity in many developing countries where workers do not have access to adequate health care. Not only does it limit their ability to cope with the physical demands of their jobs, but it also leads to absence due to sickness and can seriously undermine efficiency even among workers who do not absent themselves from work. Care for workers' family members helps to ensure the good health of the future labour force.

Old-age pensions systems ease the departure of older workers from the labour force, thereby helping to avoid the problem of workers remaining in employment when their productivity has fallen to a low level.

Cash sickness benefit contributes to the recovery of sick workers by removing the financial pressure to carry on working when ill. It also helps to maintain the productivity of other workers by countering the spread of infection.

Maternity protection is of particular importance for the reproduction of a healthy workforce, as well as for the maintenance of the health of working mothers.

Employment injury schemes are playing an increasingly important role in preventing work-related accidents and sickness and in rehabilitating workers who fall victim to these events. Such activities are of considerable

relevance to productivity, given the enormous numbers of days off work attributable to avoidable health risks.

Unemployment benefit provides unemployed workers with the breathing space they need in order to find suitable work which makes full use of their talents and potential; the associated employment and training services are also highly relevant in this respect. Workfare and other active measures ensure that unemployment benefit is also used to reshape the workforce over time to accommodate change.

Child benefits (and other cash benefits provided when the breadwinner is unable to work) help to ensure that families with children have enough income to provide proper nutrition and a healthy living environment for their children. In developing countries, child benefits can also be a powerful instrument to combat child labour and promote school attendance. Children can thus receive an education that will permit them in the long run to attain much higher levels of productivity and income.

2.3 What do the different social security terms mean?

It may be instructive to clarify some of the terminology used in relation to social security.

Social Protection is sometimes used interchangeably with "social security" or "social safety net" but the term can be used in a broader sense. From a point of view of income security, social protection incorporates non-statutory or private measures with a similar objective (such as community-based schemes and occupational pension schemes), in addition to the social security measures such as social assistance and social insurance¹. Other international organizations use this term in a more generalized sense. According to the Asian Development Bank², "social protection is defined as the set of policies and programs designed to reduce poverty and vulnerability by promoting efficient labour markets, diminishing people's exposure to risks, and enhancing their capacity to protect themselves against hazards and interruption/loss

¹ ILO, World Labour Report 2000 : Income security and social protection in a changing world.

² ADB, Social Protection Strategy, 2003

of income”. The World Bank³ discusses social protection from a point of view of social risk management and defines social protection as “public interventions to assist individuals, households, and communities better manage risk, and provide support to the critically poor”.

As we have seen thus far, different international organizations propose different definitions of the term social protection. Generally, by social protection it is meant to capture a broader and more inclusive concept than social security (for instance the scope of social protection also covers non-statutory schemes and private initiatives); and, in the context of developing countries, social protection is closely related to poverty reduction and sustainable economic and human development.

Social Security is one of the most common terms used to describe a wide spectrum of public interventions against a set of defined risks. A widely accepted definition by the ILO Social Security (Minimum Standards) Convention No.102 is “the protection which society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by the absence or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age or death; the provision of medical care; and, the provision of subsidies to families with children”.

Social Safety Net is used to refer to public arrangements to ensure that any individual can obtain assistance to avoid falling into absolute poverty. Social assistance is a typical example of a social safety net. Recently, this term was used to refer to (usually short-term) state interventions to mitigate the immediate impact of structural and economic adjustments such as the transition from planned to market economies and of economic crises such as the one that took place in Asia in 1997.

³ Holzmann R. and Jorgensen S, “Social Risk Management : A new conceptual framework for Social Protection and beyond”, Social Protection Discussion Paper, 2000

2.4 What are the options for funding social security?

The following table summarizes five major issues in social security funding, and compares the basic advantages and disadvantages of each option.

Table 2.1 Social Security Funding Options

Advantages	Disadvantages
<p>Contributions - This is a debate about who should contribute - whether workers and employers pay contributions to be eligible for benefits (Social Insurance) or whether the government funds the schemes out of taxation revenue (universal scheme). Social insurance funds can be semi-independent from government and used exclusively for the payment of benefits and not subject to economic variations. Universal schemes provide fixed rates for all citizens, usually means tested</p>	
<p>Government funding provides for universal schemes that are strong in social solidarity and transfer of wealth to the lower paid workers. They can be means tested and targeted at those most in need. Payments under the schemes are the same for all eligible beneficiaries</p>	<p>Government funding is subject to taxation and collection capacities and requires strong governance, strong accountability and no corruption if the schemes are to be sustainable in the long term. Higher paid workers are often dissatisfied with their benefits when compared to their contributions (taxes). When there is a high ratio of beneficiaries to contributors (taxpayers) as is the case in developing and aging countries the demand on the small workforce may be untenable.</p>
<p>Privatization - This is a debate about who should manage the funds - whether social security funds should be managed by the government or by private enterprise. Typically funds are managed in trust for the contributors (Trust Funds) by a tripartite Board of Directors independent of government.</p>	
<p>Private sector funding can be more efficient at investing funds - and competition between funds will maximise the efficiency; the funds will be safer because they are less subject to government control; and setting up pension funds in this way promotes more rapid development of the financial sector that benefits the whole economy.</p>	<p>Private sector funding can pose a greater risk of corruption or mismanagement; competition can increase costs (because of costs of advertising and contributors changing funds); the government will have to play a major role in any case (through regulation); and it is difficult for contributors to make informed choices about funds.</p>
<p>Advance funding - This is a debate about when the funds for pensions should be provided and by whom. Should a person's pension be paid from funds previously paid in by or for that person (and kept "in storage" until the time comes for the person to be paid) (Advance funding)? Or should the pension be paid from the contributions of current workers (pay as you go (PAYG))?</p>	
<p>Advance funding means setting money aside now which makes it more likely that the government will be able to meet its obligations later (when the population has aged); that the interest the pension funds will earn will increase the amount of money available; and that it will increase national savings that can be invested productively.</p>	<p>Advance funding is not practical because it is impossible to advance fund without finding money to pay for pensions that cannot be fully prefunded (existing pensioners and those who began their working career some time before the decision); that large accumulations of pension funds may increase competition for investors and reduce rates of return; and enforced saving may reduce other saving.</p>
<p>Diversification - This is a debate about how the funds should be invested - whether they should be limited to government bonds or whether, and to what extent, they should be invested in equities. Investments in stock markets have given much better returns than government bonds; however, investment in stock markets can be risky and volatile</p>	

Advantages	Disadvantages
Investments in stock markets have given much better returns than government bonds; that pensions can promote economic growth; and that pensioners should have more choice about how their funds are invested.	Investment in stock markets is too risky; that if the government controlled the pension fund it would effectively control a lot of the private sector; and that it makes corruption more likely.
Defined contribution or Defined benefit - This is a debate about how pension should be calculated - whether a person's pension should be limited to what they have contributed (plus interest that the money has earned), this is <i>defined contribution</i> . Or should the pension be an amount that is related to something else (such as a proportion of final salary or average salaries), this is <i>defined benefit</i>	
For defined contribution - there is no cost to the government; it encourages saving; rewards those who save most; and increases understanding about the costs of population ageing.	Against defined contribution - it does not provide adequate income in retirement for poorer workers; it helps least those workers who need help most; and it is more complex to administer

In practice, social security systems in most countries have elements of all of the different funding components but to a different extent and they are mixed in different ways. For example, many have some defined benefit component (social pension) and some defined contribution (individual account). Most do not aim to be fully-funded but aim for different degrees of advance funding. Some allow investment in equities but it is restricted in different ways. Funding also entails income transfer between generations and affects an individual's choice in savings and retirement. In reality what happens in most countries is that social security programs are predominantly funded by contributions from employers and workers. Social assistance programs specifically targeted at the poor and vulnerable are generally funded by the government.

2.5 Social Insurance

Social insurance is conspicuously lacking in most South Pacific countries, including Fiji, Kiribati, Samoa the Solomon Islands and Vanuatu. Social insurance is the technique used in the great majority of countries worldwide to develop social security⁴. The basic principle is the pooling of risks in a fund which can be applied to all nine of the social security contingencies. It is also common to find that social insurance has replaced techniques such as employer liability as part of the strategies for improving social security

provisions in workers compensation schemes. This has been much in evidence in numerous developing countries in recent decades which have replaced employer liability schemes and national provident funds, with social insurance schemes. Improving access to health care through social health insurance has also attracted increasingly high priorities in recent years.

It is also true that some countries, notably in Latin America, have replaced pension insurance schemes with defined contribution schemes. These different trends are discussed in detail in the relevant feasibility studies.

The adoption of social insurance principles is in conformity with two of the essential requirements found in the various ILO standards:

- cash benefits should be in the form of periodical payments, not lump sums;
- the duration may be limited in respect of medical care and cash benefits for sickness, maternity, and unemployment, but should be throughout the contingency in principle for contingencies such as employment injury, old age, permanent invalidity, and survivorship.

2.6 Social Assistance

Social assistance is to be found in virtually all industrialized countries, where it serves as a safety net to the other social protection schemes, including social insurance and thus to relieve

⁴ The Marshall Islands, Federated States of Micronesia and Palau benefit from the social security system of the USA.

poverty. In developing countries social assistance is much less widespread. Where it exists, it is usually restricted to just one or two categories of the population, such as assistance to the elderly in the form of universal pension schemes like those in Kiribati and Samoa.

The relative paucity of social assistance schemes in the developing world testifies to the problems which many governments have in devoting adequate resources to it. This should not be seen purely as a reflection of the low absolute level of national income or of government revenue. It may be questioned whether governments, in establishing their priorities, always give sufficient weight to their social assistance schemes, whose beneficiaries are rarely in a position of political strength.

Social assistance is targeted only at those in need and the means test can in theory be made rigorous enough to exclude all but those whose needs are greatest. In practice things tend to be different, even in the most sophisticated social assistance systems. On the one hand, no means test is foolproof, some people who are not eligible nevertheless succeed in obtaining benefits — particularly in countries where there is a thriving informal economy. Such errors are serious not only because they cost money, but above all because they undermine public confidence in the system. On the other hand, social assistance benefits fail to reach many of those in greatest need for one or more of the following reasons:

- they are unwilling to apply because of social stigma;
- they may be unaware of their rights under the legislation;
- they find it difficult to submit an application for benefit, as procedures are often complicated and time-consuming; and

- social assistance is often subject to considerable administrative discretion, opening the way to favouritism and discrimination.

The more rigorous the means test, the greater the likelihood that people will be deterred from applying and that those in real need will fail to obtain benefit. Self-selection mechanisms are often more appropriate than means testing, especially in the context of developing countries. These tend to be used, for example, in the provision of paid work in labour-intensive projects and of basic food aid.

Means-tested social assistance has another major drawback, as it can discourage people from saving (or encourage *dissaving*) if they think that any savings they have will simply be deducted from the benefit that they would otherwise receive. Similarly, it may act as a disincentive from contributing to other forms of social protection. Thus it can help to create situations of need because of the perverse incentives inherent in means testing.

On the other hand, social assistance can be useful for specific vulnerable groups, such as the elderly and children. It may well be the only solution for widows who have not been able to contribute themselves to pension schemes or whose husbands were not covered by survivors' insurance. It is often also a way of helping poor households with children; in various countries the provision of such benefits is now linked to school attendance where immunization or nutrition programs are provided. This is the principle of *conditional transfer* or requiring beneficiaries to undertake some form of action in order to receive some assistance. This can be in the form of work for benefits (workfare) or bringing children to school in return for other assistance.

Chapter 3 Extension of Social Security Coverage

3.1 Introduction

Extending social security coverage to excluded populations is one of the chief priorities of the ILO in the framework of its global strategy aimed at ensuring that all men and women have decent work. It is estimated that only one in five people in the world has adequate social security coverage while half of the world's population is without any social security protection.

The International Labour Conference (ILC) in 2001 undertook a general discussion on social security and reached conclusions⁵ which call for highest priority be given to policies and initiatives which can bring social security to those who are not covered by existing systems. The International Labour Conference of 2002⁶ confirmed the commitment to making decent work a reality for workers in the informal economy. The commitment to decent work is anchored in the Declaration of Philadelphia's affirmation of the right of everyone to conditions of freedom and dignity, of economic security and equal opportunity. The ILC sought to address the multitude of workers and enterprises who are often not recognized and protected under legal and regulatory frameworks and who are characterized by a high degree of vulnerability and poverty, and to redress these decent work deficits.

The promotion of decent work for all workers, women and men, irrespective of where they work, requires a broad strategy: realizing fundamental principles and rights at work; creating greater and better employment and income opportunities; *extending social protection*; and promoting social dialogue. These dimensions of decent work reinforce each other and comprise an integrated poverty reduction strategy. The challenge of reducing decent work deficits is greatest where work is performed outside the scope or application of the legal and institutional frameworks. In the world today, a majority of people work in the informal economy because

most are unable to find other jobs or start businesses in the formal economy.

In sub-Saharan Africa and South Asia it is estimated that only 5 to 10 per cent of the active population is covered by a statutory social security scheme, most of these being old-age pension schemes, in some cases also providing access to health care, but coverage is tending to fall. In Latin America coverage ranges from 10 to 80 per cent according to the country, but on the whole it is stagnant. In South East and East Asia, it ranges from 10 per cent in countries such as Cambodia to 100 per cent in the Republic of Korea for sickness insurance. In the transition countries of Europe, it lies between 50 and 80 per cent, and in some of the wealthiest industrialized countries there are still today increasing gaps in social security coverage. In general, worldwide it can be taken that only 20 per cent of workers enjoy adequate social security.

The progressive extension of social security eligibility is also one of the key elements in any national strategy for poverty reduction which aims to enhance social security for the poorest by improving core social safety nets and accelerating development in remote areas. ILO studies and experience in developing countries in Africa, Asia and Latin America support this concept.

The study into the progressive extension of social security eligibility to the wider population needs to examine the options for extension of eligibility to the excluded formal sector workers, and examine the needs of workers in the informal economy and in some cases for overseas migrant workers. The informal economy by its nature is difficult to quantify and the lack of a standard definition and categorization of workers and their distribution has resulted in a limited availability of statistical data relating to workers in the informal economy. This is particularly true in most Pacific countries, many of whom have not completed labour market surveys and rely completely on the limited labour information from population census conducted in five or ten year intervals.

This ILO project *Subregional Initiative on Social Security for the Pacific Island Countries*, aims to

⁵ Resolution and conclusions concerning social security, International Labour Conference, 89th Session, 2001.

⁶ Resolution concerning decent work and the informal economy - The General Conference of the International Labour Organization, meeting in its 90th Session, 2002.

identify categories of workers in the informal economy, to define their status in the relevant country, their priority social security needs and consider the feasibility of providing them with basic social security eligibility. To assist in this process a random survey of informal economy workers was undertaken in each country.

General

Social Security in Pacific Island countries is generally available only to people in formal employment and who are obliged or entitled to participate in a variety of mostly savings schemes. These schemes provide cover for retirement, work accident, health, and death. The schemes are funded by contributions from employers, employees or a combination of contributions from both and managed by provident funds through tripartite boards of management.

The present social security programs in Pacific countries as in most developing countries were envisaged to capture a finite group of formal sector workers and ultimately extend the coverage over a number of years. This was facilitated by granting exemptions to various employers or employment categories in the initial legislation and regulations. However over time it is evident that in general, these exemptions have not been removed and many of the schemes differ little from their original inception decades ago.

The current social security eligibility extends to employees of the military, civil service and private companies above a prescribed staff size and total payroll. The remainder of the population employed in smaller enterprises, self-employed in the informal economy and the unemployed or aged, rely on private insurance or support from immediate and extended families and the local community. In the short term, it is likely that social security provisions may be extended to include more of the people employed in the formal sector and the self-employed. In the medium term additional programs of unemployment benefits and social assistance to selected sectors of the population may be possible. The extension of social security entitlements to the entire population will be a long-term goal in most Pacific countries.

3.2 The Formal Employment Sector

The formal sector represents the more administratively visible part of the economy and

society, namely the public and private corporate sector and comprises enterprises and the professional self-employed that have been accorded legal status and are regarded as legal entities.

This legal status is accorded through registration by professional associations, the Ministry of Labour and the Ministry of Trade and Industry, or their equivalents in each country. As legal entities, the enterprises are subject to labour laws administered by the Ministry of Labour and to the ILO conventions that have been accepted by the respective countries. The formal sector in the countries in the study ranges from about 25 to 40 percent of the economically active labour force.

The employment sectors in Pacific countries are measured by the National Statistics Departments in a National Population Census conducted every 5 or 10 years. Modifications through annual statistical returns from employers or by targeted labour market surveys of selected sectors of the economy are not common in Pacific countries. As a result the total dimension of the labour force is not necessarily complete in most countries. The basic classification of the formal sector is the *Legal Entity*, described as:- *Legal status of a company/unit of economic activity based on the requirement to register with the appropriate government agencies; usually the Ministry of Labour and the Provident Fund.*

In most Pacific countries the bulk of the workforce is still employed in traditional agricultural occupations and most workers in the informal economy are in rural areas in the agricultural sector. The urban informal sector comprises those individuals and employers who have not been accorded legal status but who have commenced their operations often without the sanction or knowledge of the local authorities (e.g. home workers, transport operators and traders). Many enterprises in the informal economy may be registered with local authorities and finance regulators such as the Ministry of Finance or the taxation office but have not been accorded legal status under the definition of legal entity by the Ministry of Labour and have not been identified by the Provident Fund.

It was believed that growth in the formal sector workforce and industrial sectors would *trickle down* to the traditional sectors of the economy. Instead, urban industrialisation has tended to widen structural inequalities between the handful of leading sectors and the rest of the economy.

The ILO concluded in the 1970s that the informal economy was both efficient and profitable and there emerged the view that it should be promoted as a strategy to tackle structural inequalities and to meet the basic needs of the poor. Continuing rural-urban migration and economic shocks caused by environmental conditions, conflict and poor governance reaffirmed the importance of the informal economy in terms of work and income generation.

While the formal economy has a tendency to produce *jobless growth*, the informal economy continues to absorb the bulk of the job seekers who annually enter the labour market. These jobs are created with little capital and without any subsidy from the State. These informal enterprises often rely on indigenous resources, including re-cycled materials, and produce predominantly for local markets. The entrepreneurs mobilise their own financial resources via family networks, savings clubs and rotating credit systems. Accommodation for newcomers is provided and training given on the job. Many workers in the informal economy also maintain strong ties with their places of origin and often foster plans to return. Urban to rural

remittances, particularly from the capital cities in pacific countries and from expatriates working overseas, occur on a very large scale and for many village households this capital flow has even become the major source of household income.

There is a tendency to associate such informal sector activities with poverty. While it is true that many workers in this sector are poor, it cannot be assumed that earnings are necessarily lower than formal sector wages. Anecdotal studies suggest that incomes are not always lower than in the formal economy and whilst this may be true in urban areas most rural informal economy workers are poor or near poor.

Apart from generating work and income for a large proportion of the population in most cases more than 60 per cent, of total employment, the informal economy is also a major supplier and distributor of basic services and needs such as water, food, clothes and shelter. In urban areas the self-built housing sector meets a substantial amount of housing needs. Without the informal sector the majority of the urban population would have difficulty surviving in the city.

Table 3.1 Table of comparison between formal and informal economy

FORMAL ECONOMY	INFORMAL ECONOMY
<p>Description</p> <ul style="list-style-type: none"> • Employees of large firms and in many cases multinational firms • Covered by labour laws and regulations • Generally capital intensive enterprises with relatively few workers, mechanised, often use expensive raw materials • A guaranteed standard in the final product • Employment conditions mostly regular hours & low wages • Fixed prices • Employment mostly in factories • Government and multinationals help to establish and maintain operations • Legal entities registered with appropriate government and local agencies • Employs predominantly males <p>Type of employment</p> <ul style="list-style-type: none"> • Typically manufacturing sector employment, both local and in multinational industries, mining, oil • Government employment such as the police, military and civil service • Service sector in offices, hotels, sales and administration • Self-employed professionals in medicine, law, accounting <p>Advantages</p> <ul style="list-style-type: none"> • Generally have access to unions and staff associations 	<p>Description</p> <ul style="list-style-type: none"> • Self-employed • Small scale/family enterprise • Little capital involved • Labour intensive with use of very few tools. • Using cheap or recycled waste materials • Often a low standard in quality of goods • Irregular hours and uncertain wages • Prices rarely fixed and so negotiable (bartering) • Jobs often done in the home (cottage industry) or on the streets • Little or no government assistance • Often outside the law (illegal) • Employ mostly females and children <p>Type of employment</p> <ul style="list-style-type: none"> • Distributive-street peddlers and small stalls • Local transport • Small scale manufacturing such as wood, metals, textiles, carving etc • Services, selling food, clothes and fruit • Small scale industries such as food processing, tailoring and furniture repairs etc <p>Advantages</p> <ul style="list-style-type: none"> • Employs many unskilled workers • Jobs may provide some training and skills which might lead to better jobs in the future

FORMAL ECONOMY	INFORMAL ECONOMY
<ul style="list-style-type: none"> • Less susceptible to corruption and standover tactics • Uses some skilled and many unskilled workers • Access to compulsory social security • Provides permanent jobs and regular wages • Produces goods (like cars and food) for the emerging middle classes so that profits may remain within the country • Waste materials provide raw materials for the informal economy 	<ul style="list-style-type: none"> • Any profit will be used within the city or remitted to the rural areas • Uses local and waste materials—the products will be for local use by the informal sector, the lower paid people <p>Disadvantages</p> <ul style="list-style-type: none"> • Often not protected by local labour laws and regulations • Little access to loans or grants • Generally no access to unions or associations • Subject to corruption and coercion by unscrupulous authorities and individuals

The key definition of informal employment in pacific countries is the same as in about 21 other countries; that of unregistered enterprises or *enterprises without legal status* and in rural areas includes most of the population employed in traditional sectors as paid or unpaid workers. The composition of the informal sector in pacific countries has not been well defined except in one or two countries.

3.3 The Informal Economy

The term “*informal economy*”⁷ refers to all economic activities by workers and economic units that are, in law or in practice, not covered or insufficiently covered by formal arrangements. Workers in the informal economy include own-account workers in survival-type activities, such as street vendors, shoe-shiners, garbage collectors and scrap and rag-pickers; paid domestic workers employed by households; home workers and workers in sweatshops who are “disguised wage workers” in production chains; and the self-employed in micro-enterprises operating on their own or with contributing family workers or sometimes apprentices/employees.

Development of effective policy for the extension of social security coverage to the informal economy must be based on a better understanding of the target groups and the assessment of their social security needs and existing services. However, the informal economy by its nature is difficult to quantify and there is a limited availability of statistical data.

⁷ Although the term “informal sector” has gained wide currency since its popularization by the ILO in the 1970s, more recently the ILO perceives this term inadequate because the workers and the enterprises in question do not fall within any one “sector” in the sense of a specific industry group or economic activity, and proposes to use an alternative term “informal economy” to encompass the expanding and increasingly diverse group of workers and enterprises operating informally in both rural and urban areas.

Though the workers in the informal economy consist of heterogeneous groups, Table 3 attempts to classify the workers in the (urban) informal economy in terms of access to and stability of the place of employment and the resources. This classification could help policy planners to develop progressive measures to extend the social security cover to workers in the informal economy. It may also assist in the identification of the poor and vulnerable groups in the informal economy.

Table 3.2 Categories of workers in the informal economy

Category	Mobility Characteristic	Examples	Organisational Form	Labour force	Capital Stock	Use of Modern Technology
A	Highly mobile	Ambulant vendors Sidewalk sales, shoeshine Roadway newspaper and book sales Casual cigarette vendors Car washing Parking assistants	Unregistered Unlicensed	Single person	Minimal or zero	None
B	Mobile or home based	Mobile Street food vendors Home food cooking Simple handicrafts	Unregistered Unlicensed	Single person	Small but visible	Very minimal
C	Semi-fixed or in recognised operating zones	Street craft stalls Fixed food stalls Minibus drivers and operators	Unregistered Informal licenses or rents	Single person or family labour	Modest, in fixed location	Relatively minor
D	Fixed location	Small shops Motor workshops Small Timber and Furniture makers Stalls in indoor central markets Traditional markets	Unregistered Informal and formal licences	Mainly family labour with some additional employment	Moderate	Some modern technology (e.g. phones, faxes, power machinery)
E	Professional self employed, fixed or home based	Accountants Medical practitioners	Unregistered Licensed or Members of associations	Usually single operation with employees	Moderate	Some specialist modern technology

One suggestion derived from this table is that a realistic strategy could be to extend the scope of the coverage from relatively organised workers with more regular income (categories D and E) to highly mobile workers who live on a day-to-day basis (category A). For a more comprehensive mapping of the excluded workers in the informal economy, further research is necessary to look into the dimensions and characteristics of each category of informal economy workers. The survey of the informal economy workers conducted as part of the project extends the knowledge base on the informal economy in Vanuatu.

3.4 Identification of priority needs and contributory capacity

It is evident from the results of the survey of the informal economy workers that there is a high need for some form of social protection. The results confirm that health insurance is one the highest priority whereas work injury and age benefits were also high priorities in one survey but old-age benefits and education loans were highest in other surveys. Whilst there is a demonstrated need for old-age benefits it seems that the premiums would be unaffordable to most

informal economy workers unless there was some form of subsidy.

The social security needs of those in the informal economy differ according to their social and family status (women, children, youths, the elderly), the degree of hazard in the particular occupation (e.g. small farmers, fishermen, drivers of mini buses), the work setting (at home, on the street, in a sweat shop), the milieu (communities more than establishments), and their ability to make regular contributions to the insurance fund.

In trying to develop appropriate mechanisms to cover the risks borne by workers in the informal economy, it is important to understand the range and types of risks that are present and how they may be prioritized. The strategy on how the informal economy workers may adopt to manage these risks must be evaluated. This would allow benefit packages and delivery systems to be designed that are fully responsive to the needs of workers in the informal economy.

In the case of the Fiji survey, the initial findings suggest that there will be very limited capacity for rural and urban informal economy workers to afford about FJD. 40.00 per month for the modal

provident fund contributions in addition to premiums for other programs. Whereas formal sector workers and employers contribute 7.5 per cent of gross salary each for the provident fund contribution, it would be difficult for workers in the informal economy without an employee-employer relationship to contribute the average amount without any form of cost sharing or subsidy. This is demonstrated in the Fiji survey where about 19 percent of respondents indicated they could not make any contributions, 72 percent could pay up to FJD 10 per month and about 9 percent could pay more than FJD 10.00 per month. The survey findings will be presented as a separate report that covers the survey results for all of the project countries.

3.5 Strategies for Extension of Coverage

Without the introduction of effective measures to extend coverage, the proportion of the population in pacific countries that are excluded from all social protection will increase considerably in the coming years.

In general, there is no single solution to achieve the goal of universal coverage; each programme must be designed to suit the national and local needs, priorities and resources. It should be noted that good governance and sustainability are prerequisite for any programmes. This ILO project has drawn on a range of strategies for improving and extending social security coverage. Some key elements of the strategies are:

- extension based on existing formal sector social security mechanism: social insurance, universal benefits and systems and social assistance programs which in pacific countries centred around the provident funds;
- the promotion of and support for the development of decentralized systems deriving from local initiatives, in particular micro-insurance programs;
- introducing universal benefits or services financed from general state revenues such as the universal age persons allowance paid in Kiribati and Samoa;
- establishing or extending means-tested benefits or services (social assistance), also financed from general state revenues; and
- the design of linkages and bridges or interfaces between decentralized systems and other forms of social protection and

public initiatives. This includes the interface between the cash based urban service providers and the cash poor traditional systems.

In the project a number of feasibility studies were undertaken to address these options for each of the five countries. All of these options for extension impinge on a range of national issues like the economy, social cohesion, community resilience to poverty, individual and groups risks of falling into poverty. However, it should be stressed that the industrialized countries are not untouched by the problem of social security coverage and that policies for the extension of coverage have been applied there over the past few years. One example is Spain, which with the introduction of a national health service by the General Health Act of 1986, in the 1990s extended access to health care to 99.8 per cent of the population. Another example is France, which introduced universal health coverage in 2000 for those excluded from health insurance schemes. Various European countries also introduced minimum income programs in the 1980s and 1990s for those unable to benefit from existing income guarantee schemes.

3.6 Promoting micro-insurance schemes

Basic ideas

In the past *top down* government administered models have achieved little penetration into the informal economy and experienced low sustainability. This suggests that more emphasis should be placed on the development of decentralized *bottom up models* that will drive the design of programmes and services to the workers in the informal economy. Promotion of micro-insurance schemes based on group contributions would need to be considered as an alternative interim measure for informal economy workers. The underlying idea is to use the micro-insurance schemes managed by communities or other organized groups as a vehicle to provide social security for the informal economy. It should be noted that the target groups are those who earn above the poverty line but are outside the formal social security schemes. In many cases, the micro-insurance schemes are connected with income generating or micro-finance activities.

There are several advantages that support the success of this approach. Firstly, such schemes are expected to be more accountable with the commitment by the leader and participation in

management and sense of ownership by members. Secondly, these schemes can have benefits and contributions structures that are more responsive to the needs of the members.

Self-help groups supported by trained facilitators are seen as the key to successful implementation of a social security program for informal economy workers. The benefits of self-help groups are:

- Able to be developed in geographical, economic or occupational groups in accordance with the best practices. (experience from local trials suggest geographic groupings may offer the best potential for sustainability);
- Facilitators and group leaders can assist in the marketing and explanation of social security provisions to members of the group;
- Local access to information and assistance about contributions and claims thereby minimizing a major complaint about access to services;
- Mutual support by the facilitator and other group members to maintain continuity in the scheme during personal difficulty experienced by individual members, and
- Essential to the efficient collection of contributions by field officers visiting the groups on a regular basis thus maintaining low administrative cost of group contributions to the agency,

An inherent concern about micro-insurance schemes is fragility. Lack of necessary preconditions has caused many micro-insurance schemes to have a short life span before they become insolvent, usually as a result of imprecise assessment of risk, failure in investment and inadequate delivery of services. Smaller schemes may be less profitable, have higher administrative overheads, provide lower benefits, increased risk of insolvency and may in the longer term jeopardise the development of a future government subsidised system by legitimatising evasion through support of informal arrangements. It is also desirable that the number of schemes is kept small and the overall system does not become fragmented with a proliferation of schemes that will become difficult to control.

Therefore, to extend the coverage by means of micro-schemes while ensuring their sustainability, the Government is expected to play an important role as a coordinator and as the

guarantor of last resort. In the long run, therefore, the most sustainable arrangement may be to bring these decentralized schemes under the Government umbrella in which self help groups can facilitate registration of members and collection of contributions.

In addition to micro-insurance, private insurance companies could provide the cover for injury and health, injury and death independently or in competition with micro-insurance schemes. Competitive rates for life insurance and injury insurance could be achieved for a scheme that covered informal economy workers given an adequate pool of contributors and appropriate re-insurance and risk guarantees.

In general, Pacific Island countries have relatively small populations and in some cases they are subject to severe environmental risks. This combination of small pool sizes and high risk places the micro fund at some degree of threat. The solutions of using a guarantor (the government), re-insurance or pooling with other funds either internally or externally, all require intensive consultation, good governance and efficient administration. A joint ILO/World Bank study produced some principles for social re-insurance and the Pacific sub-region offers some of the characteristics identified in the study. An example of the high cost of using private re-insurers can be seen in Kiribati where the re-insurance cost of the workers compensation scheme for a small number of contributors (500 – 600) is almost 40 per cent of the premium. This level could not be sustained in a small micro-insurance scheme.

3.7 Relevant trials and experiences in micro-insurance schemes for the informal economy

International experience

In most developing countries about 10-20 per cent of the workforce is covered by formal social security programs, another 30-40 per cent live below the poverty line and the remaining 40-60 per cent above the poverty line but not contributing (or entitled) to social security schemes. Annex 1 provides a summary of some international experience in informal economy social security schemes.

There have been a number of international trials aimed at extending the existing formal social security systems into the informal economy.

These schemes target the vulnerable poor and the informal economy workers and great emphasis is placed on developing self-help groups as the basis for the organisational models for these schemes. In most schemes the government has a supporting role in terms of promotion, guarantor of some funds and contributor of subsidies in other cases. In almost all of these schemes international technical assistance has been provided for policy design, governance and in some cases to provide direct subsidies to promote and maintain the schemes. The other major stakeholders are various NGO's, cooperatives, trade unions and private insurers.

Research on the selected case studies shows the following typical characteristics of social protection programs for workers in the informal economy:

- All of the programs are voluntary and it is very difficult to administer compulsory membership to the schemes;
- Benefits and contributions are tailored to the needs of the individual groups who decide on their priorities;
- Programmes are flexible and offer a range of benefits options with contributions that reflect the affordability range of the target groups;
- Organisation of groups is essential to achieve a critical mass to minimise risk, maximise efficiency in collection of contributions and payment of benefits;
- In most cases some form of re-insurance or pooling of funds is essential if the schemes are to be covered for unforeseen risks and be sustainable in the long term;
- In some instances governments have accepted their responsibility for social security by providing contribution subsidies for some elements of insurance and in guaranteeing the funds against high risk (e.g. natural disasters etc);
- Most schemes relied on some form of partnership with private insurers or banks to provide the range of services; and
- Service delivery was usually provided by special agencies focused on the particular scheme or by NGOs supervised by a government agency.

3.8 Extending Coverage of formal sector

Whenever social insurance schemes have been made compulsory for a limited section of the workforce, usually based on the size of the employer, the ultimate aim was to gradually extend coverage at a later date. There is some evidence of this in some pacific countries, however, most have used voluntary compliance rather than legislate extension of compulsory contribution.

The original purpose of these regulations seems to have been to limit the pool of eligible employers to allow the provident fund organisation to develop its capacity to administer and enforce a manageable base of contributors. This process of progressive expansion of coverage to smaller and smaller enterprises is used elsewhere in the world. The way membership of provident funds has been restricted is to use the size of employer (number of employees), gross monthly salary or number of hours worked. In other schemes the self employed, contractors, family businesses and piece rate workers are also exempted from initial schemes. These avenues can encourage the understatement by employers of the size of their workforce, the total payroll or the number of hours worked by employees in order to evade contribution liability, to the disadvantage of many members of the workforce.

Compulsory membership of the social security scheme for all *formal sector* employees where an employer/employee relationship is clearly established, would simplify administration, compliance and marketing of the scheme and an improvement in contribution compliance rates could potentially increase the coverage of employees. An initial comparison in the five countries between the active members of provident funds and estimates of the formal sector workforce generally shows a high correlation. This implies that the compliance levels are high, however the fact that provident fund data is usually current and employment data is dated by some years makes a direct comparison very difficult. In most PICs public sector employees represent a significant proportion of the formal sector workforce and therefore compliance could be expected to be high. More direct observations are made in the country assessments in Chapter 4.

The findings from the surveys and from general observations show that there is a widespread lack of understanding amongst employers and employees about social security in general and the contribution requirements to most provident funds in particular.

3.9 Informal Sector Studies

The purpose of the study relating to the informal economy as part of the SSPIC project is based on the assumptions that any extension of social security would have to be piloted and implemented in phases by areas or provinces. This study will focus on areas and employment sectors that offer the potential to be easily identified, manageable, close to administrative centres; occupations that earn more regular incomes and demonstrate a need for social security.

The survey into the informal employment sector, conducted as part of the SSPIC project, is one of many studies aimed at improving the understanding of what is a highly complex series of interrelationships where individual entrepreneurs override the normal legal constraints and the protective mechanisms of formal employment. The survey attempted to confine the scope to the social security issues by supplementing the quantitative measures available from statistics⁸ and other studies with a small-scale geographical survey to improve the qualitative understanding of the social security needs of selected elements of this vast employment sector. The surveys also aimed to supplement the available data about the informal economy.

The surveys were conducted in each country to obtain primary indicators of social security needs but also to provide information that may support the establishment of a future pilot study that could assist in the design and testing of a social security program to meet the needs of informal sector workers. The surveys concentrated on the two major components of the informal employment sector in urban and rural areas. The surveys were conducted in the geographical areas in proportion to their informal sector work force and based on an analysis of the composition of the informal economy.

⁸ These include household income and expenditure surveys and specialist informal economy studies which have been conducted in some of the five countries

Because of the concentration of the population in rural areas in most pacific countries where up to 76 per cent of families may be devoted to agriculture for income and or subsistence, then informal sector employment is correlated strongly to agricultural activities.

The definition and classification of the informal economy is difficult in many countries because comprehensive data is often unavailable and informal economy studies are often limited to selected employment sections. The broadest definition for the informal economy includes those workers who do not receive regular income and have no contracted or enforceable employer/employee relationship. This usually includes a predominance of self employed, casual and unpaid workers in family businesses and those not registered or subject to labour laws.

Options for classification can include degree of employment mobility and assets, geographical location or broad employment activities. In the case of most pacific countries, the broad employment category appears to be an efficient classification parameter because of the limited range of occupations and the domination of the agricultural sector in employment of the population.

In the absence of any formal classification of the informal economy a reasonable occupation based classification is listed below. This classification was used to design the informal economy survey that would provide a close correlation with the structure of the informal economy and at the same time be able to be randomised within that structure.

Predominantly Rural

1. Farm and Farm Related Activities comprising subsistence farmers, small landholders in specialised or mixed farming, landless farm workers and unpaid family members.

2. Fishing⁹, where this is the major income source. It is recognised that in some households income and subsistence will be derived by a combination of fishing and farming.

⁹ this applies to coastal local fishing and not to commercial operators who are clearly in the formal economy

Mostly Rural Some Urban

3. Home Workers including craft workers, mat weaving, garment making and housemaids.

4. Self Employed Workers including micro-entrepreneurs, small traders and miscellaneous enterprises.

Mostly Urban

5. Transport Industry Workers including taxi drivers, small repairers and other small transport passenger and freight services.

The surveys also provided information about social security as it may apply in pacific countries i.e. social insurance for selected life events, as it was anticipated that many people would have little understanding of the concept. The choice of employment category and location was based on proximity to major cities, earnings capacity, high lifestyle risk and potential to create groups of workers with similar work and life interests. The potential to administer and monitor a future pilot scheme and a subsequent social security program was also a key consideration.

The survey data collection form was constructed in 5 parts; personal details, education, employment, income details, social security needs, priorities and desire to contribute. A summary of the key findings are presented below and the complete survey is provided as Chapter 5.

3.10 Other Legislative Considerations

There are other legislative provisions that relate to liability for social security contributions that should be examined. An example is social security contributions for employees of Diplomatic Missions that are contained in the *Vienna Convention on Diplomatic Relations, 1961. Article 33*. This convention provides for local staff employed by diplomatic missions including agencies such as the United Nations missions and projects are subject to the local laws on social security contribution. This convention would also apply to all of the international missions in Pacific Island Countries. While most Diplomatic Missions provide some social security protection for their regular national employees during the term of their contracts, employees on short term contracts may benefit from only minimal, short term cover or no cover at all - leaving such workers vulnerable when their contracts end or even while they are actually still employed. A more in-depth study of compliance

with conventions such as this one should be included as part of any extension of social security coverage.

3.11 Compulsory vs. Voluntary Membership

The rights to universal social security coverage by all members of society have generally been endorsed by the government and people in pacific countries and this is supported by the commitments made in the National Development Programs¹⁰ in each of the five countries in this project, including Vanuatu.

Voluntary membership can only be seen as a transitional strategy to alleviate temporary government budgetary constraints but in the long term the government must accept its responsibility to provide for a minimum social security system for all citizens. Inequities between the personal contributions from formal sector employees and informal sector workers are huge which creates a sustainability problem for voluntary schemes, the very schemes that are designed to protect the most vulnerable informal sector and poorest workers. Voluntary membership carries with it some serious risks of adverse selection, limitations in the pooling principle, drift of formal sector workers away from their current schemes into a cheaper informal scheme and ease of withdrawing from a voluntary scheme.

Attempts to extend existing social security to cover the self employed have met with mixed success. Few people join these schemes voluntarily and many are either unwilling or unable to pay the combined employer and employee contribution. Likewise compulsory cover is difficult to achieve especially in the areas of identification, registration and collection of contributions. Some success has been obtained by creating special schemes for the self employed that can adapt the contribution rate and services to the needs of the self employed. These programs are more successful when they are accompanied by some form of subsidisation.

A summary of likely extension proposals could see priority placed on compulsory schemes

¹⁰ The references to social security in the plans vary considerably. However the general thrust is along the lines of people's welfare, development and achieving the MDG's. The individual comments are described in the separate country reports in later parts of the report

(formal sector, self employed etc.), capacity building in the institutions, encouragement of an informal economy scheme through self-help, and voluntary schemes supported by the government.

3.12 Social Security Institutions for Extension of Social Security Coverage

The main national institutions capable of delivering expanded social security programs in PICs are the provident funds; however transition from a provident fund to a social security institution would require substantial changes to the provident funds. The major weaknesses in provident funds are the role which is closer to insurance companies than social security organisations, their limited access and outlets across most countries, their limited exposure to customer service, and limited personal data holdings and capacity to capture and hold data on individual members. The private insurance companies may also be in a position to administer private insurance or superannuation schemes using their existing group schemes that have been developed on a group risk basis. Whilst extension of social security coverage is welcome it is also desirable that the number of schemes is kept small and the overall system does not become fragmented with a proliferation of schemes that will become difficult to control. Smaller schemes may be less profitable, have higher administrative overheads, provide lower benefits, increased risk of insolvency and may in the longer term jeopardise the development of a future government subsidised system.

An ideal social security system should maximise the performance of existing institutions within the bounds of current legislation by treating all employer/employee relationships as formal sector workers and subject to compulsory social security contributions. This could allow the creation of special cases for the remainder of truly informal sector workers. In the short term it is most likely that Provident Funds could coordinate a social security scheme for informal sector workers alone or jointly with private insurance companies by delivering flexible policies to group schemes through local facilitators.

3.13 Capacity for Provident Funds to Extend Membership

In all provident funds the primary customer focus is on the employers who are responsible for registration of their employees in the schemes, payment of monthly contributions and representing their employees' social insurance affairs. The service delivery concept is based on group collections of contributions and this has shaped the organisational structure. The focus should be changed more towards the individual member in terms of access to services, information, marketing and privacy. Whilst some provident funds have the option of storing additional personal data like member addresses, most do not do so because of the need to maintain the data. The concept of maintaining accurate contact data has a low priority in provident fund operations. The ability to have direct contact with members, without using the employer as a broker is considered essential in the longer term. A cost estimate has not been made to undertake this change in focus but it is expected at a minimum that IT systems will have to be upgraded as well as changes to organisation wide staffing and property models.

It is not proposed that the employer group collection methods be changed as they have proven to be efficient; however additional collection methods need to be devised if smaller enterprises and self-employed workers are included in the membership of provident funds. This may include the user of field officers employed by the funds, as paid agents or NGO's paid a commission for servicing informal sector groups.

3.13.1 Service Delivery Networks

To support extension of membership the service delivery networks would need to be expanded in all PICs to ensure reasonable levels of access and equity for all members and to facilitate the smaller contributors. Most provident funds in PICs have few service outlets and in the case of Vanuatu there are only two (Port Vila and Santo).

3.13.2 Process and Administrative Considerations

The following considerations on administration and technology are initial observation made by the project in the initial visitations program and they are general and relate to all provident funds in the project countries. These considerations were expanded and developed in detail in the

study on Operation and IT in VNPF contained in Chapter 20.

- The membership process needs to be enhanced to involve individual members in their social security investment;
- Provident fund performance needs to improve the returns on investment and lower the relative administration costs to make the fund more attractive to members by increasing the long term benefits to members;
- Improvement of the benefits provided to members and to introduce new social security benefits in the medium term such as unemployment insurance, maternity benefits, regular pensions in lieu of lump sum payments, accident insurance and possible social assistance in the long term;
- Improved access to services by distributing access to remote areas by the use of part-time services, authorised agents, telephone services and further devolution of branch offices;
- Reviewing the business needs to improve targeting of services and needs to customer groups in the currently excluded employment sectors;
- Developing effective marketing programs to better inform the potential members about provident fund social security services, eligibility, benefits and procedures.
- In some provident funds segregation of the cancelled memberships and identification of active and non active members will assist management and processing; and
- Development of a new integrated registration process that uses additional data about individuals, includes a stringent proof of identity process and provides customers with their rights and obligations of membership, functions that are all essential in a social security organisation.

(i) ***Opportunities for Regional Cooperation on Social Security***

Given the similarities in many PICs and the range of cooperation that has occurred in organisations such as USP and PICTA, and with immigration activities and in a range of economic and trade areas, the opportunities for social security should be explored. There are some obvious opportunities in the administrative and IT areas where sharing of common systems and policies between provident funds would facilitate easier maintenance and reduce costs. An association of IT sections may minimise the impact of the loss in skilled staff and recruitment difficulties faced by provident funds for specialist staff.

Further investigation into Social re-insurance, funds pooling and reciprocal benefit arrangements should be explored. The biennial conference of PIC Provident Fund CEOs is an example that could be extended.

3.14 Conclusions

Those lacking social protection tend to belong to the economically weaker sections of society. The aim in the long term should be to bring them into a national system covering the whole population (or the entire labour force, as the case may be) where they can benefit from risk-pooling and solidarity. In the medium term this may be possible for middle-income developing countries, but not for the low-income countries. Such schemes are difficult to enforce, especially for some sections of the self-employed, but plans should be drawn up (and included in legislation) to extend compulsory coverage in a step-by-step manner, at least to all employees.

The State may facilitate and support micro-insurance schemes for those whom compulsory schemes are for the time being unable to reach, although it is clear that many of those in greatest need will never choose or be able to contribute to such schemes and will thus never benefit from any support which the State provides to them. Micro-insurance schemes should be encouraged to develop in a way that will facilitate their possible integration into the national scheme and eventually the generalization of compulsory coverage.

Apart from contributory schemes, the other main types of social protection are financed from general government revenue and may take the form of means-tested or universal benefits. Governments in developing countries have been slow to develop either of these, being already

under intense pressure to cut existing public expenditure, within the framework of structural adjustment programmes. However, such benefits need not be very costly: the category of persons eligible can be quite narrowly defined, at least at the initial stage, in order to limit the impact on the state budget. Over time, as the benefits prove their worth and gain political support, it should be possible to devote greater resources to them and to provide them on a less restrictive basis. Both types of benefit provided by the State can help those who are in greatest need. Universal benefits tend to cost more but they are simple to administer and they are a foundation on which individuals can build better income security for themselves and their families. They can be a powerful tool to promote gender equality and, more generally, to enhance individual autonomy, since they can free people from destitution without subjecting them to the controls and conditions usually associated with poor relief.

The net cost to government of providing a universal scheme should be fully investigated and

the returns via value added taxation, income taxes (after a number of financial exchanges) and local economic growth have been included in the calculation model.

The goal of social protection is not mere survival, but social inclusion and the preservation of human dignity. As governments seek to extend coverage, they would do well to study the experience of countries where social security is popular and enjoys a high degree of public support. The huge task of extending social protection is one for which they will need all the public support they can get. There are no simple solutions, and the prospects of success of the various strategies will vary according to the national context.

More research, accompanied by experimentation and innovation, can help to inform policy to achieve progress towards ensuring that all working people and their families enjoy decent social protection.

Chapter 4 Vanuatu Country Overview and Social Security Review

4.1 Demographic summary of Vanuatu

The Republic of Vanuatu is an archipelago comprising 83 islands in the western Pacific Ocean that are dispersed from latitude 13 – 22 degrees south. The total land area is 12,189 km² with a total Extended Economic Zone of about 680,000 km² and most of the islands are volcanic in origin with typically high mountains in the centre and fringed by lower coastal zones where most of the population is concentrated. The dispersion of the islands as shown in Figure 4.1 creates administrative difficulties in communication, provision of services and access which is only possible by sea or by air.

Figure 4.1 Vanuatu islands and provinces.

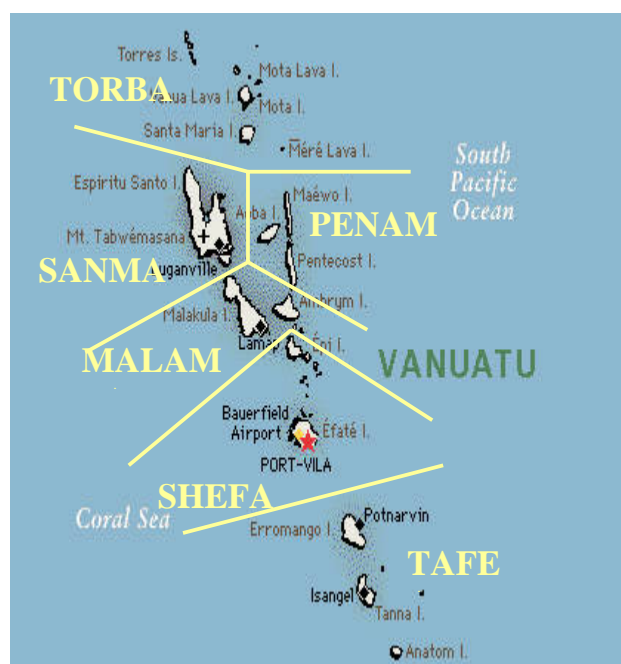


Table 4.1 Cyclones in Vanuatu

Year	Cyclones
1989	Delilah, Harry, Ivy, Lili
1991	Lisa, Tia
1992	Betsy, Daman, Esau, Innes, Fran
1993	Prema, Rewa
1994	Serah, Theodore, Troma, Usha, Vania
1996	Zaka, Atu, Beti, Fegus
1997	Drena, Freda, Ian
1998	Susan, Katrina, Yali, Zuman
1999	Dani, Ella, Frank
2000	Iris, Jojo
2001	Paula, Sose
2002	Zoe
2003	Beni

Source: Vanuatu meteorological service

More importantly Vanuatu is geographically located in a region on the *pacific ring of fire* that makes it vulnerable to earthquakes, volcanoes (nine active) and tsunamis. Vanuatu is also in one of the most active cyclonic areas in the Pacific region and table 1 shows the high co-variate (group) risks the country faces from cyclones and the resultant loss of income and capacity that parts of the country face almost every year.

Whilst mitigation against cyclones can be achieved by having an effective disaster recovery system a comprehensive social protection system would also alleviate much of the subsequent loss of income and resultant economic downturns caused by this form of natural disaster.

Vanuatu also presents other complexities in terms of social protection in that 80 -100 languages are spoken locally and whilst the lingua franca is Bislama (mostly based on English and a form of pidgin), English and French are also spoken.

In 1994 Vanuatu reduced the eleven local government councils to six provinces that would give more power and accountability to the local communities and involve them in economic development. The provinces from north to south are:

- **Torba**, (Torres and Banks islands), area 867 km², population 7,757,

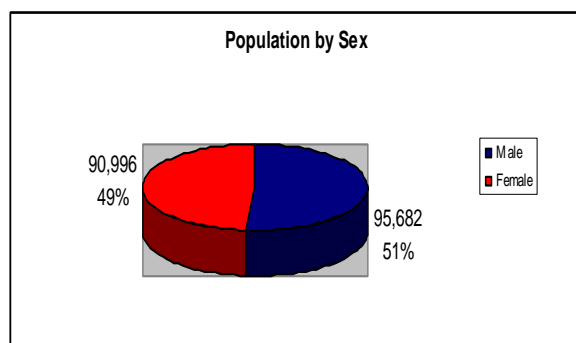
- **Sanma**, (Espirito Santo and Malo islands), area 4,262 km², population 36,084,
 - **Penama**, (Pentecost, Ambae and Maewo islands), area 1,203 km², population 26,646,
 - **Malampa**, (Malakula, Ambryn and Paama islands), area 2,808 km², population 32,705
 - **Shefa**, (Efate, Epi, Emae and shephers islands), area 1,507 km², population 54,439, and
 - **Tafea**, (Erromango, Aniwa, Tanna, Futuna and Anatom islands), area 1,632 km², population 29,047.
- **Vanuatu**, area 12,281 km², population 186,678¹¹.

4.2 Population

The most recent population and housing census was conducted in Vanuatu in 1999 and follows a ten year census cycle. The previous census was conducted in 1989.

The 1999 census showed an overall average population growth in Vanuatu of 2.6 per cent over the ten years since the previous census in 1989 which is a reduction from 3.4 per cent and 2.8 per cent over the previous two decades. The growth was highest in the urban areas with 4.2 per cent and only 2.2 per cent in rural areas. Urban growth is now 7.5 per cent whilst rural growth is 2.1 per cent. This demonstrates the continuing migration from rural to urban areas.

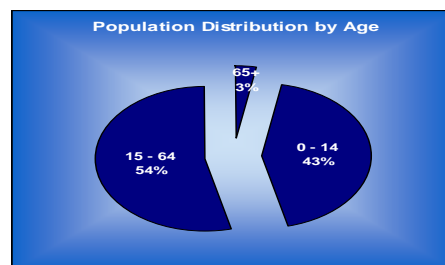
Figure 4.2 Population by Sex



The distribution of the population of Vanuatu by sex is high by world standards and when the results shown in figure 2 are expressed in a sex

ratio of number of males per 1000 females the outcome for Vanuatu is 106 (same as the 1989 census) which is higher than the world average range 103 to 105.

Figure 4.3 Population distributions by age

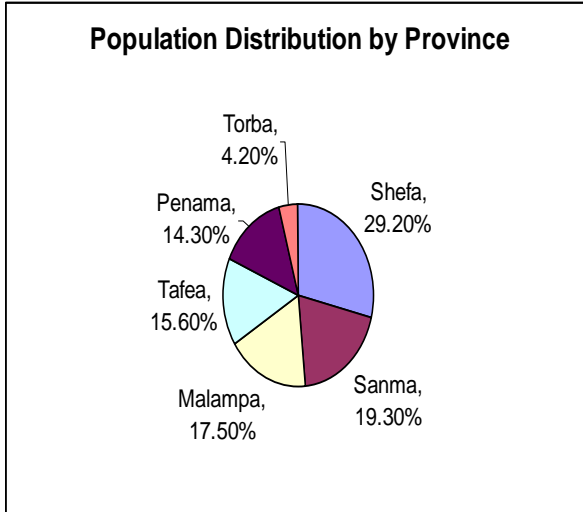


Distribution of the population by age allows the dependency ratios of the population to be determined and Vanuatu has a high child dependency ratio where the working age population (54 per cent) is required to support the children under 14 years of age (43 per cent). In developed countries like Australia the population under 14 years is about 20 per cent, less than half that of Vanuatu. The overall dependency ratio (aged + youth) is 85 per cent which is high relative to developed countries like Australia where the overall ratio is about 33 per cent. The special needs of youth in relation to social protection will present large problems for Vanuatu in the future, particularly in the area of job creation. On the other hand the age dependency is very low at only 3 per cent of the population over the age of 65 years, which in the short term will require fewer resources to support the aged. However like most countries Vanuatu is an aging population and population predictions based on World Bank standards will be presented when available.

Figure 4.4 Population by province

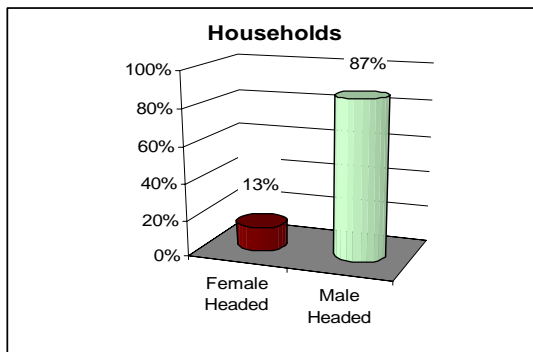
The population in Vanuatu is distributed fairly evenly throughout the provinces with the most populous province being Shefa which contains Port Vila, the capital and most of the urban population. As in most pacific island countries most of the population are located in rural areas (78.5 per cent) which has reduced from 81.8 per cent in 1989.

¹¹Area and population source: - 1999 Population Census, Demographic report 2001.



This relatively even distribution of population presents unique problems in providing government services and creating economic development across the numerous islands. On the majority of islands in Vanuatu the population is located along the coastal strip with little exploitation of the hinterlands except for Santo where grazing of cattle has extended through most of the island.

Figure 4.5 Head of Households



A total of 36,415 households were counted in the 1999 census of which 35,604 (98 per cent) had a Ni-Vanuatu head of household. The average number of persons per household was 5.1.

Of particular concern to social protection is the relatively high numbers of female headed households as women are one of the groups most vulnerable to poverty. Unless there are family members with employment and in the absence of formal social security programs then these families are forced to rely on the support of extended families to supplement their basic needs.

Females head 13 per cent of private households in Vanuatu. They reside in both urban and rural areas. The scenario is quiet similar yet distinctively different in terms of how these households operate. Urban based households feel more of the brunt of having to reside in a cash driven economy. Children are often on the brink of schooling and health and dietary habits. Reliance on garden plots and extended family members is increasingly becoming difficult in urban areas, whilst the rural based communities still have this advantage hence the heavy reliance on subsistence agriculture.

The implication of this on women, if not already evident in social relations will surely become evident in years to come. Majority of those heading these households are rural based and on the periphery of mainstream employment and thus have no social protection. Subsistence agriculture is the economic mainstay. Dietary habits, social relations and roles in the home continue to be redefined and changing with the economic status and income earning pattern of each family. Often children of these households are marginalized by institutional structures and benefits and remain or continue to descend on the social strata of society. This is evident with regards to education access, housing, income generation loan eligibility and other social services. Social challenges like teenage pregnancy, crime and school dropouts are often associated with home situations that are led by a single parent. Whilst data is not available to confirm this, discussions with national officials at the Department of Women and NGOs align to this perspective.

Female maintained households relate to those whose partners are absent because of work location in another area. This is another issue that needs to be further explored in the Vanuatu context and its implications on women and social relations

External migration has little impact in Vanuatu unlike other pacific countries like Tonga, Cook Islands, Samoa and Fiji where the opportunity exists for significant number to emigrate to other countries particularly New Zealand, Australia and U.S.A. Vanuatu has no established external migration networks that could offer permanent or long term emigration. Therefore Vanuatu lacks the positive financial impact from remittances sent by expatriates overseas that is a significant

part of household income in other Pacific island countries. In those countries remittances have a positive effect on national accounts.

4.3 Government

Vanuatu is an independent, democratic republic with a 50 member Parliament elected by the people every 4 years. The executive consists of a Council of Ministers headed by the Prime Minister who is elected by Parliament from among its members. The President is elected by Parliament and the National Council of Chiefs for a period of five years. The Prime Minister and the 12 co-members of the Council of Ministers oversee the administration of Vanuatu's 13 government ministries. Each ministry contains a number of departments that cover the range of government services. The ministries are:

- Council of Ministers;
- Ministry of Agriculture, Forestry & Fisheries;
- Ministry of Comprehensive Reform Programme;
- Ministry of Education;
- Ministry of Finance & Economic Development;
- Ministry of Foreign Affairs;
- Ministry of Health;
- Ministry of Public Utilities & Infrastructure;
- Ministry of Internal Affairs;
- Ministry of Lands, Geology & Mines;
- Ministry of Ni-Vanuatu Business Development;
- Ministry of Sports & Youth Employment; and
- Ministry of Trade, Commerce & Industry.

Independence was attained in 1980 after some 74 years of joint rule by Britain and France. The islands were then known as the New Hebrides. The Constitution provides for executive and legislative arms of government, and the judiciary. The President is Vanuatu's Head of State. The judiciary consists of the Supreme Court with a Chief Justice and a Magistrates Court.

Vanuatu is a full member of the British Commonwealth, the French League of Nations, the United Nations and agencies including ILO, Agence de Co-operation Culturelle et Technique, the South Pacific Bureau for Economic Co-operation (SPEC), the South Pacific Commission, the World Bank and the Asian Development

Bank (which has a regional headquarters in Port Vila).

4.3.1 Government reform structure

In an effort to address several structural problems within the economy, Vanuatu began the implementation of a comprehensive reform programme (CRP) in July 1998. This followed its adoption by a broad range of community representatives at a National Summit of representatives of the people of Vanuatu in Port Vila, in July 1997. Despite a change of government since its introduction, the CRP has been maintained with the support of the Asian Development Bank and a number of bilateral donors. It was based on three categories of reform: public sector reform, economic reform and reforms aimed at promoting equity and social development. An integral part of the CRP has been the identification of five priorities with accompanying strategies. These priorities are:

- improving the lives of the people in rural areas;
- supporting private sector growth;
- restoring good governance;
- improving participation by civil society; and
- closing the gap between the rich and the poor and disadvantaged groups.

4.3.2 Legal system

The International Companies Act (1993), the Companies Act (1986), the Banking Regulation and other Regulations are based on English law. The Supreme Court of Vanuatu has jurisdiction to determine all matters. Commercial law is based on English law.

4.4 Economic situation

The country has a dualistic economy, with a large smallholder subsistence agricultural sector and a small monetised sector. The monetised sector is based on established plantations, grazing leases and associated trading, manufacturing, banking and shipping services, as well as the country's tourist industry. In Vanuatu, copra is the most important cash economic activity in the rural sector. At present, about 69,000 hectares of land are under coconut plantation, producing 50,000 tons of copra a year. Nearly all domestic exports are primary goods, the principal ones being coconut products, beef, cocoa, coffee and timber.

The introduction of commercial laws in the early 1970s added a new dimension to the economy; it led to the development of Vanuatu as off-shore finance and banking centre, and a rapid expansion in the number of support organizations and professionals in Port Vila. The Finance Centre contributes considerably to Government revenue through the payment of business licence fees, insurance, banking and trust company licences, annual registration fees for all companies, stamp duties and other smaller fees. It is also a significant earner of foreign exchange through capital transfers, professional fees, interest etc.

The Government places a high priority on tourism development within the country and several new resorts and hotels have been recently completed. The Government earns substantial revenue from turnover taxes on hotels, licensed premises, and casinos. Vanuatu has also enacted legislation to allow all forms of betting (under strict controls).

The local currency is the Vatu (VUV) which is tied to a regional basket of currencies. As there are no exchange control regulations in Vanuatu, bank accounts can be held in Vatu or any of the major international currencies, and funds in any currency can be readily transferred anywhere in the world without the need for approvals.

The banking structure consists of a Reserve Bank, the National Bank of Vanuatu, numerous internationally recognized commercial banks and merchant banks. In addition, a substantial off-shore banking centre exists. Many international commercial banks have licences to conduct business locally as well as with non-residents. These banks provide international services through a worldwide network of branches and correspondents.

Vanuatu has no exchange control regulations or authorities. Funds accrued in or remitted to Port Vila in any currency can be held in any currency and readily transferred anywhere in the world. This applies to all types of transactions whether capital, loans, dividends, interest, royalties, service fees or profits. Any major world currency can be invested, earn interest and be repatriated in that currency or freely converted into other currencies. Companies may be incorporated with capital in any recognised world currency.

The Government has created conditions in Vanuatu that have widespread appeal to investors. The general policy toward all forms of foreign

investment is to welcome it, provided that the proposed investment contributes to the economy. There is no limit on foreign ownership of a Vanuatu business; indeed, most businesses are foreign owned.

In Vanuatu, there are no:

- income taxes;
- corporate taxes;
- estate duties;
- succession duties;
- gift duties;
- capital gains tax;
- double taxation agreements; or
- withholding taxes.

The main income from taxation is by way of a 12.5 per cent Value Added Tax (VAT) and from import duties which are variable depending on the imported item.

The Government has defined areas for development in agriculture, industry and tourism. Within these priorities the following types of projects receive favourable consideration:

- foreign exchange earning projects;
- projects planned for rural development;
- projects that generate employment; and
- projects that will increase tourist accommodation.

These projects are eligible for full exemption from customs duties both on capital goods and construction materials imported during start-up and on raw materials or manufactured goods not locally available that will be re-exported after production.

Generally speaking there are no restrictions on export trade in Vanuatu. Export duties levied are not very heavy. There are no quota restrictions and there is no system of preferential tariffs or duties on goods coming from any particular source.

4.4.1 Economic assessment¹²

The economy continued to suffer from recession in 2002 but modest recovery is projected over the medium term. The relatively high cost structure remains a factor in restraining growth, and competitiveness of the tourism industry has declined in recent years with the appreciation of

¹² Based on ADB Assessment 2003

the real exchange rate. Consequently, renewed efforts are needed to implement the Comprehensive Reform Program (CRP) initiated in 1998 and to pursue further structural reforms so as to improve the economy's competitive position.

4.4.2 Macroeconomic assessment

GDP fell further in 2002, by 0.3 per cent, following a contraction of 2.73 per cent in 2001 reflecting the effects on agriculture and tourism of several major cyclones and weak demand. Agriculture as a whole strengthened modestly but the forestry sub sector contracted by 3.43 per cent following a similar drop in 2001. The cocoa sub sector exhibited depressed conditions, though copra production grew by 7.13 per cent, boosted by subsidized prices and, despite the cyclones, generally good weather conditions.

The construction sector expanded by 53 per cent, stimulated by government expenditures on upgrading the airports on the islands of Efate and Santo, while the services sector as a whole contracted by 0.93 per cent, with the hotels and restaurants sub sector and government services leading the decline. Total visitors in 2002 were 7.43 per cent lower than a year earlier, attributable to a decline in tourist arrivals due to a combination of greater competition from other destinations in the Pacific and, to a lesser extent, a relatively high real exchange rate. Inflation moderated to around 2.0 per cent in 2002, from 3.5 per cent in 2001. Exports grew by 7.0 per cent in 2002, following a steep fall in 2001; imports rose by 2.9 per cent, following weak growth in 2001. The current account deficit narrowed slightly to 2.0 per cent of GDP. Gross official reserves were slightly lower than in 2001 but still sufficient to cover around 6 months of imports of goods and services.

The Government's fiscal position improved in 2002, with an overall deficit of 2.1 per cent of GDP, following 2 years of more sizable deficits. The improvement was mainly due to expenditure restraint and, in particular, to the impact of financial controls on personnel costs. A tight cash situation persisted in 2002 with the Government still using a system of monthly warrants to control spending. Revenues were also lower than originally estimated, reflecting the impact of weaker than expected economic growth. However, the impact of improvements in VAT

and customs administration was also evident in 2002. Several privatizations that had been planned for 2002 (including Air Vanuatu, National Bank of Vanuatu [NBV], and Telecom Vanuatu) were delayed.

In mid-2001, the Government instructed the Vanuatu Commodities Marketing Board to pay substantial copra subsidies that had to be financed by direct advances from the Reserve Bank of Vanuatu (RBV). The price subsidy has continued and was estimated at about 1 per cent of GDP in 2002. Supplementary budget support was also provided to the Asset Management Unit (AMU), amounting to about 0.9 per cent of GDP in 2002. This was to repay the NBV for Non Performing Loans that had been transferred to the AMU.

Overall public debt declined slightly from 38.0 per cent to 37.0 per cent of GDP in 2002. Around three quarters of it is external debt on concessional terms. The funding of substantial losses at the National Provident Fund contributed to a significant build up of domestic debt in 1997-1998 but the Government currently has a cautious approach to borrowing. External debt service costs are relatively low but the main government focus is on total debt service requirements relative to government revenues, which stood at 6.2 per cent in 2002, or below the target limit of 7.0 per cent.

The money supply declined by 1.7 per cent in 2002, largely reflecting a significant decline in net foreign assets. Domestic liquidity conditions eased for most of the year with currency and deposits increasing by 44.7 per cent. Total domestic credit grew by 11.9 per cent, driven primarily by strong credit growth for the Government, which itself was mainly in the form of a very large increase in the overdraft with RBV. Private sector credit expanded by around 7.9 per cent. In 2002, commercial deposit interest rates eased slightly while commercial lending rates rose on average, and as a result, the average spread widened to 12.0 per cent from 11.3 per cent in 2001 and 10.1 per cent in 2000. The effective spread is, however, considerably larger than this due to the common requirement for significant deposits as collateral, which are often financed by additional borrowing. Tight foreign exchange restrictions from early 2000 also contributed to the wider interest rate margins. Between mid-2001 and mid-2002, the Vatu depreciated against the Australian dollar by 2.3

per cent and against the euro by 6.8 per cent, but appreciated against the US dollar by 8.1 per cent.

The OECD designated Vanuatu as an uncooperative tax haven in April 2002, along with a handful of other jurisdictions. However, Vanuatu has taken steps to stay off the Financial Action Task Force list of uncooperative countries on money laundering. There have been concerns about the enforcement capacity of anti-money laundering regulations, but positive steps were taken in 2002. The introduction of know-your-customer guidelines in mid-2002 is expected to improve the effectiveness of anti-money laundering measures. A new International Banking Act was passed in November 2002, which has placed offshore banks under the supervision of RBV from 2003. Proposals are also being developed for more effective supervision in the non-bank offshore sector. Increasing global concerns about money laundering may have prompted recent actions; however, there is still much resistance and divided opinion in the offshore business community.

4.4.3 Policy developments

Vanuatu is characterized by numerous long-standing structural weaknesses that raise costs relative to those of competitors, by fiscal limitations, and by vulnerability to external shocks and political developments. The Government has been implementing a Comprehensive Reform Program since 1998 to improve governance, particularly in the areas of parliamentary, judicial, and legal procedures, public sector efficiency, and financial management. Despite reasonably good progress, much more remains to be done.

Government expenditures on the wage bill, as a share of the total, continues to be relatively high, despite efforts made under the Comprehensive Reform Program to reduce them. The Government has recognized the need to strengthen the fiscal position through a broadening of the tax base, and a Revenue Strategy Committee has identified options to do this, though progress has been slow due to resistance from business. The need remains, however, to improve compliance with present taxes, and the Government's intention is to lift the ratio of taxes to GDP from the current 22-23 per cent to 27 per cent.

The prospective introduction of the Pacific Islands Countries Trade Agreement (PICTA) would place pressure on Vanuatu to establish new revenue sources, as it is still highly dependent on tariff revenues, despite the introduction of VAT in 1998. Tariff revenues constituted 35 per cent of total revenues (including grants) in 2002 and are projected still to be 33 per cent of total revenues in 2005. In 2002, the average implicit tariff was 24 per cent. Under PICTA, all tariffs would have to be gradually removed by 2016. The impact would also be intensified once tariffs on products from Australia and New Zealand are reduced under the Pacific Agreement on Closer Economic Relations (PACER). The 2003 budget announced an increase in import duty rates by 5 per-centage points for various imported foods, medicines, insecticides, and textiles and an increase in the existing tariff from 20 per cent to 40 per cent for various timbers, from 30 per cent to 40 per cent for certain fruit juices, and from 25 per cent to 40 per cent for canned meat. As PICTA has not yet been ratified, there is no contradiction with the Agreement but some of these tariff increases are likely to entail adverse economic efficiency effects, which could be avoided by the use of excise taxes.

It has long been recognized that Vanuatu has a high cost structure relative to neighbouring and competitor countries. For example, compared with the Fiji Islands, electricity tariffs are twice as high, the retail price of motor fuel is 40 per cent higher, and local telephone calls are three times as high. Internal and international transport costs are also much higher than in neighbouring countries. Part of the explanation for this relates to the geographic dispersion of the population across several well-separated islands and to the lack of appropriate regulatory arrangements for local monopolies. In addition, the heavy reliance on tariffs means that import duties on business inputs directly raise the cost of production. While a duty drawback scheme is in place, it does not extend to all business inputs or all businesses. The exchange rate also seems to undermine competitiveness: the real effective exchange rate has appreciated by nearly 10 per cent over the last 6 years.

4.4.4 Outlook for 2003-2004

Modest economic recovery is forecast in the medium term with growth of 1.3 per cent in 2003 and 2.2 per cent in 2004. These growth rates are

lower than the current population growth rate of around 2.6 per cent, implying a decline in per capita income. Inflation is projected to continue to be moderate, at 2.5 per cent in 2003 and 2004.

Agriculture is expected to lead the recovery. Tourism is also expected to improve with the recent completion of two new hotels and ongoing advertising campaigns. A switch in the focus of the tourism market from certain other Asian locations as a result of security concerns, to the South Pacific and the flow-on effects of sporting events in this part of the world, will help support tourism in Vanuatu in 2004, but the cost aspect remains a consideration. The government sector is projected to decline in real terms by 5 - 5.7 per cent in the medium term, contributing to relatively weak overall economic growth but helping secure a more sustainable fiscal position and facilitating longer-term private sector development.

The 2003 budget forecasts a modest overall surplus of 0.4 per cent of GDP, which is projected to increase marginally in 2004. Much of the surplus will be realized from a reduction in development expenditures. The wage bill is projected to remain approximately constant in nominal terms but decline modestly as a share of total recurrent spending and relative to GDP in the medium term. However, this depends on the Government meeting the projected targets for these expenses.

4.4.5 Revenue objectives

The government has recognized that the breadth and robustness of its revenue base together with its ability to administer tax collection are key factors in assisting the government to meet its objectives. A sound and wide revenue base accompanied by a high degree of voluntary compliance will enhance the government's ability to promote private sector growth and meet its social policy targets.

As part of this tax broadening strategy, a Revenue and Investment Review Committee was established. The committee, in close consultation with stakeholders has presented its findings to government which includes recommendation to widen the taxation base which may enable to government to extend and improve its services particularly in remote areas.

4.5 History and cultural issues

Vanuatu has strong traditional cultural systems called *Vanuatu Kastom* and these traditions vary significantly between islands. This is demonstrated by the number of indigenous languages (about 110) and the variation from patrilineal societies in the South and Central islands to matrilineal societies in the Northern groups of islands. These traditions are characterised by in-kind and cash assistance to immediate and extended families, traditional land ownership and respect for the chief system. Its strengths appear to be social cohesion, meeting of basic needs and support to the needy.

The chief system varies from the older and more typical Melanesian *Big Man* leaders which are based on their ability, wealth and prowess to the modern European influenced chief system based on hereditary lineage and the achievement of levels of expertise within the hereditary system.

Today's *kastom jifs*¹³, although undoubtedly custom, are simply not customary. The emergence of the popular identity *jif* from a plethora of local leadership positions were shaped by the events and interests of post contact colonial society. Common use of the Bislama term *jif* is more recent and British district agents usually designated leaders as *assessors* or *bigmen*. The Vanuatu's indigenous leadership varied considerably across the country and possession of a leadership title legitimated the person's claim to authority. In the north of the country men advanced through grades in society by acquiring new titles by paying off titleholders above them in sacrificed pigs, mats and food. In the centre of the archipelago, patrilineage possessed chiefly titles that were inheritable. On Tanna in the south, every male personal name was a landed title. In addition to these personal titles various ritual positions existed such as *ierumanu* or ruler (sacred chief), *ianinteta* or spokesman of the canoe (talking chief). In the far south, on Antom, something closer to the Polynesian chiefly system may have existed reflecting the intensified economic infrastructure of the irrigated taro fields.

Traditional systems suffered a number of major shocks in the early part of the 20th century with labour migration and population decline that was

¹³ Adapted from Chiefs in Vanuatu Today by Lamont Lindstrom

then forcibly overlaid with missionary and colonial systems. The missions imported the sacred hierarchy of Elder, Deacon, Pastor, Mama (Anglican priest) and promoted appointed Christian leaders to *paramount chief* of districts and islands. The colonial governments identified their own proxy chiefs, inventing the title assessor which it bestowed on French or English speaking men who advised colonial agents and as their representatives in court proceedings.

The independent state of Vanuatu has upheld much of this but the *kastom* term *jif* has now supplanted most of the colonial era titles and has multiplied hierarchically and geographically across the country. Vanuatu now has village *jifs*, area *jifs*, island *jifs*, town *jifs* which appear to be more potent than the old colonial leaders.

The *Vanua'aku* party which led the colony to independence and ruled through much of the 1980's is partly responsible for consolidating into the political arena and rationalising at national level the plethora of *jifs* at many levels in society. A number of years of political disputation about the role of chiefs in modern parliamentary society were to pass with numerous proposals being raised, many based on British and French divisions in society. Proposals to create an upper house senate comprised of chiefs were not pursued.

The National Unity government in the late 1970's supported the establishment of the Council of Chiefs which has the role of discussing all matters relating to custom and tradition, promotion of Vanuatu culture and language. The Council may be consulted at any time particularly about cultural issues on any parliamentary bill. On questions of land tenure the constitution makes it mandatory for the parliament to consult with the Council of Chiefs. Since 1977 the Council of Chiefs has been called *Malvatumauri* from Mal (*jif*), Vatu (stone) and mauri (something that grows and expands in the light). In the 1993 elections 126 state approved chiefly electors from the then eleven provinces elected 22 chiefs to the council for four year terms. Despite the reduction to six provinces in 1994 the council still comprises 22 members whose activities are funded by the state. The president of *Malvatumauri* is also the chairman of Cultural Oversight Committee.

In 1992 the large *nakamal* (peoples meeting house) was constructed for biennial council meetings and other public events.

The *Malvatumari* have codified traditional law and its first publication in 1983 titled *kastom polisi* which was aimed at village level to maintain order and to keep youth and women under closer control and to strengthen chief control over a range of village activities. A summary of some of the articles that accords power to *jifs* is shown below;

- Control over land tenure, disputes and decisions;
- Rights to adjudicate murders and determine *kastom* compensation;
- Control movement from village to village and island to island;
- Command free labour for public works;
- Regulate marriages;
- Control unwed pregnancies;
- Demand general village order;
- Attempts to forestall villagers from defecting to new religious denominations;
- Authority over *kastom* law;
- Regulate circumcision and childbirth;
- Condemns adultery;
- Demands that children respect elders;
- Control over village meetings.

Many regional councils of chiefs have also codified their own *kastom* policy much of which is based on the *Malvatumauri* policy. As a counter to the government sponsored and funded *Malvatumauri* another body of chiefs meets every two years and is called the National Conference of Chiefs. This body is supposed to be composed of about 2200 village chiefs however they are self funded and like the *Malvatumauri* have attempted to codify the role of village chiefs.

The relationship between *jifs* and the government is one of mutual legitimacy whereby the *jifs* are legitimised by the state and supported by the state including the granting of an annual public holiday as *jifs* day. The *jifs* are also expected not to involve themselves in petty politics and to assist the state in administration. The *jifs* have also provided the state a degree of traditional legitimacy by providing local police services, control of youth and disputes, mainly over land tenure. Chiefly participation serves to sanction government decisions and institutions. Dispute settlement and petty court issues are mostly resolved by local *jifs* and where this is disputed or

refused then police and state intervention can be exercised. In this way much of the local policing and disputes can be settled in a traditional way. The chiefly powers have not always been appreciated especially where they exercise powers beyond their traditional roles like preventing immigrants entering towns and forced deportation. However there is still acceptance of these cases for the benefits of overall control and civility that are evident in Port Vila when compared to other Melanesian cities like Port Moresby. Women's organisations have often condemned some of these chiefly decisions that appear to privilege the rights and interest of men over women.

The impact of the chiefly system on any potential social security or micro schemes at local level will need to be carefully considered in order to ensure that the traditional *kastom* is strengthened by such proposals and that chiefly input is sought at an early stage. It may be appropriate to ensure that at some level *jifs* are involved as stakeholders in all stages of the project.

Other aspects of the traditional systems need to be investigated in relation to social security and micro schemes. Anecdotal evidence in some of the countries visited suggests that micro schemes, including cooperatives are not viable in these countries and attempts to introduce them have all met with failure. This may be due to the expectation in villages to share wealth which creates a particular problem if only a small group of people are involved in a micro development scheme as any savings generated by the scheme may well be diverted to other members of the village in accordance with local customs. This may serve to de-motivate the members of the scheme especially if worthwhile benefits are not accrued by members. These causes are all speculative at this stage and a more detailed study on local traditions in each country may identify these key barriers to the success of micro schemes.

4.6 Disadvantaged groups in Vanuatu

The assessment of disadvantaged groups is a subjective view of the relative deprivation of these groups within Vanuatu society and it is also closely linked to vulnerability to poverty caused by loss of income. The nature of the environment in Vanuatu in a series of dispersed tropical islands with their inherent risks from cyclones and reliance on limited agricultural markets leads

to a moderate co-variate risk for most communities. Disadvantaged groups include:

- **Formal economy** - The weakness in compliance as regards formal sector workers increases vulnerability against poverty in the event of accident, death, illness or unemployment. If the group of self employed workers are also included then many workers in formal employment are only covered by only the basic social security elements provided by the provident fund scheme and lack protection from a range of life cycle risks.
- **Workers in the informal economy** – Social security provisions are not available to these workers, yet they represent most of workers and their families in Vanuatu and they are highly vulnerable to adverse life events that result in temporary or permanent loss of income, which can cause them to quickly descend into poverty. Whilst there is capacity for workers in the informal rural economy to practice some degree of subsistence farming to compensate for some of the loss of income, this is becoming increasingly less available to workers in the urban informal economy, particularly in Port Vila and Santo.
- **People living on outer islands.** They are disadvantaged through their *general lack of everything*, namely their isolation and lack of resources, and because, despite efforts to promote outer island development, most resources are invested in Port Vila and Santo.
- **Youth**, who are not well equipped by the education system for the opportunities available to them. They take the brunt of a lot of the social changes. The National Youth Policy identifies some critical issues for young people in Vanuatu that include:
 - **Unemployment.** Each year, around 1,000 15-16 year old youths join the labour force, but few of them find productive work, let alone any cash income. Unemployment is the most pressing problem facing young people in Vanuatu today. Although more young people are staying at school to senior secondary level, there are few jobs outside of the

- government or, for men, work overseas as seafarers or fishermen. Most cash jobs are in Port Vila or Santo. The large semi-subsistence village economy disguises a high level of unemployment in the country.
- Changing Vanuatu Kastom. Young people are particularly affected by the fast change in cultural practices and the narrowing range of economic opportunities in Vanuatu. Although cultural identity and pride in being Ni-Vanuatu is generally strong, young people particularly are drawn by the global *western* culture that reaches them through videos and music. Youth organizations promote local culture through dance and song competitions and community work. The change in cultural values is quite insidious, from the greater individualism and materialism promoted by the schools and economy, to the greater sexual freedom that international media espouse. The emergence of new ideas, especially about personal liberty and sexuality, creates a lot of tension for young people and is contributing to a breakdown of traditional households.
 - 'At risk' sexual behaviour Traditional Ni-Vanuatu culture puts a high value on premarital chastity, especially for girls. It is nevertheless evident that some young people are at risk of having an unwanted pregnancy or contracting sexually transmitted diseases, including AIDS. National data¹⁴ shows that teenage fertility rates of 81 births for every 1,000 women aged between 15 and 19 is high and is an indicator of susceptibility to HIV/AIDS/STD and other reproductive health dangers, and is an issue of concern in this culture where premarital chastity is still highly valued by older people.
- **Large families** that cannot meet their own needs, either through high fertility or their need to absorb relatives from outer islands and extended families. Poor households often suffer poor nutrition, poor housing and sanitation, higher mortality and ill-health and their children may attend school less.
 - **Disabled people.** Education facilities for disabled children are poor and under-resourced. There is no vocational assistance or other facilities for disabled adults. Adult disability is becoming more common, particularly as diabetes and other non-communicable diseases have become prevalent. The main insurance for a household with a disabled head is family support, which often is inadequate in the long-term.
 - **Households that have no land.** Many households on Port Vila are squatters and lack proper access to water or sanitation. There is limited availability of land for immigrants. Traditional owners control the use of their land and resources. Dense, congested, and haphazard squatter housing contributes to health and social problems and inefficient land use.
- Landlessness may be becoming an issue throughout Vanuatu. Despite legislation to curb land sales, it still occurs. Landlessness defines poverty in local terms. Traditionally, landless people could often cut copra on the chief's land or get access to land or sea resources through social traditions such as adopting of an old or sick person with land or offering a gift. Lack of access to land may now be an important marker of disadvantage. A main source of crime now is land disputes among relatives as people increasingly turn to land for a cash income. However the 1999 census found that in rural areas only 4 per cent of households did not own any land with land ownership at 96 per cent. In urban areas the situation is different where 18.6 per cent of people did not own land and 81.4 per cent owned land. This places urban people at greater risk by not being available to supplement incomes with their own food, especially important in time of unemployment and economic downturns.

¹⁴ Department of women's affairs, Gender policy guidelines 2001 - 003

- *People without regular income and the poor* – Aged, invalid, widowed, the unemployed and women make up a considerable proportion of the most disadvantaged and vulnerable people and traditional systems seem to care for these groups. However with the continued urban – rural migration (to Port Vila and other major towns), changing in traditional culture and capacity of the households and relatives to support these groups, more formal means may be required to substitute for local support.
- *Victims of natural disasters* – Vanuatu has a history of severe disruption of life through a range of natural disasters, particularly cyclones which usually destroy the food gardens that most Ni-Vanuatu rely on to subsidise their food requirements. These gardens take about three months to restore after a cyclone during which period the lack of social security and pro-active disaster recovery and social welfare programs places great stress on family incomes and subsequent nutrition intakes for families. Most disaster recovery support comes from donor assistance.

4.7 Labour market situation

The available labour market statistics have introduced a disconnect in the assessment of the composition of the workforce. The 1999 population census provided a range of statistics on employment which differed from the current definitions for the subsistence, formal and informal economies that were used in the 2000 labour market survey. As a result the reference point for formal sector employment and hence provident fund membership and potential social security contributors varies by up to 50 per cent. Table 2 shows the comparison between the 1999 census and the labour market survey in 2000.

Table 4.2 Economically active population

Population group	1999 Population Census	2000 Labour Market Survey	Revised Estimates of LM composition ¹⁵
Aged under 15	77,000		77,000
Aged 15+ and subsistence agricultural activities	57,000		65,079
Aged 15+ and working (excluding subsistence agriculture)	22,000	14,272	14,272
Aged 15+ not working (at school, retired etc)	29,000		29,000
Total Population	186,000¹⁶		

Source: Vanuatu 2000 Labour Market Report.

On the basis of Table 4.2, in 1999 the workforce was 79,000 of which 22,000 (28 per cent) were in the formal economy and 57,000 (72 per cent) were in the informal economy. The population census included employees in businesses that were below the VAT threshold (business gross income of VUV. 4,000,000 per year or about USD 35,000) and domestic workers, both categories comprise informal sector employees. The Vanuatu Statistics office considers the Labour Market Survey results to be a more accurate representation of the formal economy. Therefore the modified labour force in 2000 as shown in column four of Table 4.2 shows 14,272 (18 per cent) of the workforce in the formal economy and estimates 65,079 (82 per cent) in the informal economy.

Depending upon which source is considered the informal economy is either 72 per cent (1999 census) or 82 per cent (2000 labour market survey) of the economically active workforce. The Statistics Office identifies three major sectors in the Vanuatu labour market as shown in Table 4.3.

¹⁵ Author,s extrapolation that doesn't take into account population changes or workforce relativities but is more indicative view of the relativity between formal an informal economies.

¹⁶ Discrepancy in total assumed to be in the rounding of the census figures

Table 4.3 Overview of employment sectors

Sector	Unit	Attributes
Subsistence	Household and family level subsistence agricultural activities	Labour provided by family members. Some limited exchange and sale of outputs
Informal	Typically small self employed businesses, registered with Vanuatu license system but below the VAT registration limit. Also excluded are units engaged in the finance, banking or insurance industry	Employee numbers are usually low and labour is often provided (sometimes unpaid) by family members. Outputs and services often sold. Examples include bus operators, taxi drivers, nakamals ¹⁷ preparing and serving kava, handicraft manufacturers and retailers, small scale retailers, manufacturers and repairers etc.
Formal	VAT registered businesses, finance, banking, insurance businesses and government organisations.	Labour provided by employees who are paid wages or a salary. Business is carried out in an organised and systematic way within the government taxation system.

4.7.1 Cash crops and food gardens

An important part of Vanuatu individual income and consumption is provided by small food gardens and cash crops and the 1999 census considered anyone having 10 trees was assumed to produce cash crops, except for kava where any number constituted a cash crop.

Table 4.4 Cash crops by households

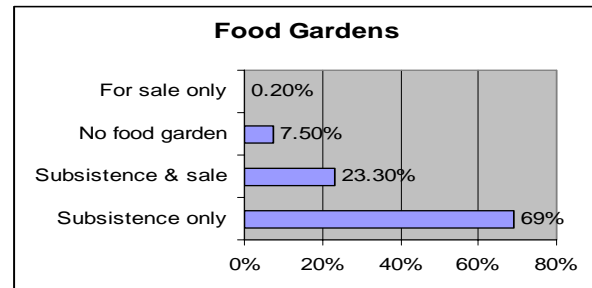
Cash crop	Households
Cocoa	24.4%
Kava	49.7%
Coffee	2.2%
Coconuts	68.8%

Overall in Vanuatu, 92.6 per cent of households had food gardens and 69 per cent of household gardens were purely for subsistence. This has ramifications for voluntary social insurance schemes in the informal economy, where it is unlikely that households would be able to make

cash contributions to a scheme without cash crops, or a family member employed and receiving salary or wages.

Figure 4.6 Food gardens

Table 4.5 shows the composition of the workforce by economic activity and it should be



noted that whilst some categories are considered to be economically active it does not follow that they all receive income. This has implications for any voluntary social insurance scheme and the indicative survey of the informal economy will be required to complement these data.

Table 4.5 Economic activity of population aged 15 - 64

Economic Activity	Male		Female		Total	
	Number	%t	Number	%	Number	Per cent
Population 15 - 64	49,234	100	48,408	100	97,642	100
Economically active	42,072	85.4	34,298	70.9	76,370	78.2
Work for pay/salary/profit	12,647	30.1	6,801	19.8	19,448	25.5
Help family business (no pay)	821	2.0	383	1.1	1,204	1.6
Other work (no pay)	1,463	3.5	1,686	4.9	3,149	4.1
Looking for work	836	2.0	424	1.2	1,260	1.6
Subsistence farmers	26,305	62.5	25,004	72.9	51,309	67.2
Economically inactive	6,293	14.1	13,904	28.7	20,827	21.3

From the table, crude workforce participation rates can be determined as follows:

Workforce participation rate:

- Total Economic active population – 78 per cent
- Males – 85 per cent
- Females – 71 per cent

¹⁷ Nakamals are Kava bars that sell food and a particularly strong form of kava unique to Vanuatu

4.7.2 Formal sector employment

The table below shows the formal sector employment characteristics and the table also highlights the difference in the 2000 LMS and the 1999 census. Whilst the 1999 population census identified about 70 per cent of the economically active people as being engaged in subsistence activities, the LMS analysis has suggested that this influences the formal employment sector by:

- Keeping wages and salaries low by the large pool of informal sector workers;
- Recruitment of low or unskilled staff is not a problem for formal sector businesses; and
- Low household incomes and low rates of pay in all sectors serve as a limitation on the size and capacity of the domestic economy and on local businesses.

Table 4.6 Formal sector employment and salaries

2000 Labour Market Survey					1999 Pop'n census excl. subsistence agric.
Occupation	Male	Female	Total	Median monthly Salary ¹⁸	
Legislators, senior officials & managers	1,035	280	1,315	101,930	842
Professionals, technicians	2,157	1,375	3,532	53,686	4,961
Clerks	693	1,060	1,753	44,418	1,739
Service and sales workers	1,437	1,146	2,583	48,712	4,186
Skilled agricultural & fishery workers	424	36	460	26,260	1,881
Crafts & related trades workers,	1,418	77	1,495	37,340	3,486
Plant & machine operators/assemblers	813	52	865	30,324	1,770
Elementary occupations	1,611	658	2,269	23,833	3,486
TOTAL	9,588	4,684	14,272	40,879	22,351

Source: Vanuatu 2000 Labour Market Survey and 1999 population Census

The employment patterns in the formal economy are shown in Table 8 below and in terms of employment the government is the largest employer with 31.4 per cent of employees. However the second and third largest employers are Retail and wholesale (17.3 per cent) and Hotels and restaurants (11.4 per cent) and these predominantly reflect the importance of the tourist industry to Vanuatu. If the other services are included as a reflection of tourism then over

30 per cent of employment is focused on the tourist industry.

If the employment categories are condensed into the three following broad categories:

- Primary Industries (agriculture, forestry, fishing and mining),
- Production industries (manufacturing, utilities and construction), and
- Service industries (wholesale, retail, hotels, restaurants, finance, insurance and other services),

then it can be shown that service industries represent 80 per cent of the businesses by number and 79 per cent by employment.

Table 4.7 Businesses and employment

Industry	Businesses		Employment	
	No.	% of total	No.	% of total
Agriculture, forestry fishing and mining	53	5.3%	748	5.2%
Manufacturing	75	7.5%	1,273	8.9%
Electricity and water	2	0.2%	156	1.1%
Construction	68	6.8%	838	5.9%
Retail and wholesale trade	333	33.2%	2,466	17.3
Hotels and restaurants	95	9.4%	1,631	11.4
Transport and communications	63	6.3%	1,027	7.2
Finance and insurance	37	3.7%	455	3.2
Other business services	129	12.8%	52	3.7
Government	60	6.0%	4,475	31.4
Other services	89	8.8%	671	4.7
TOTAL	1,004	100	14,272	100

Source: Vanuatu LMS 2000, Report

4.8 Existing formal social security programs

There are two major formal social security programs in Vanuatu and they are the Vanuatu National Provident Fund and the Workers compensation system. There is no social assistance program nor is there a specific ministry or department that focuses on the welfare and social development issues. As such there is no social development plan that includes social security or social welfare. Other government sector plans (e.g. health, education) should include social policy and welfare provisions however most do not do so. This is evidenced by the fact that there is no special school for disabled children in Vanuatu. In the absence of a separate department for social policy there is an urgent need to mainstream welfare in government

¹⁸ Ni-Vanuatu only

departments. A number of the informal and micro schemes that complement the formal schemes are discussed separately in this report.

4.8.1 Vanuatu National Provident Fund (VNPf)

The VNPf is administered by a tripartite board that comprises the CEO of the Ministry of Finance as the chairman and government representative, Public Sector association member, Registered Trade Union member, Vanuatu Chamber of Commerce member, Finance and Services representative and the General Manager of VNPf as an ex-officio member.

(i) Membership

At the end of 2003 the VNPf had a total of 39,938 member records which was a decrease of 1.8 per cent from the total of 40,673 in 2002. This reduction was partly due to withdrawals but also to the ongoing data cleanup and reconciliation exercise.

Table 4.8 VNPf fund active members 2003

Age group	Males	Females	Total
Under 20	327	371	698
20 – 29	3,535	2,394	5,929
30 – 39	3,565	2,029	5,594
40 -49	2,304	1,229	3,533
50 – 59	886	364	1,250
60 and over	183	35	218
Total Members	10,800	6,422	17,222

Source: VNPf Annual Report 2003

(ii) Benefits and contributions

From 1 January 2004, the contribution rate was reduced from 12 per cent of gross salary to 8 per cent of gross salary which will obviously have long term ramifications to the value of retirement benefits for fund members. The reason for this reduction in contribution rates was to ease financial pressure on employers (particularly the government) and employees, however it is understood that some employers continue to voluntarily contribute 12 per cent of salary for their employees.

The VNPf provides for four levels of benefits. Payment is made by the lump sum balance of the account only; there is no pension or annuity option. The benefits are:

- Attained age 55;

- Permanently incapacitated for work;
- Death of the member (lump sum plus VUV. 175,000); and
- Migration.

Table 4.9 VNPf withdrawals 2003

Reason	Number	Amount VUV.
Old age (55 years)	546	98,873,176
Death	72	17,435,672
Incapacity	147	28,964,252
Migration	121	69,104,500
Total Members	886	214,377,600

Source: VNPf Annual report 2003.

The only form of payment available to members is lump sum payment of principal and accrued interest, a pension option is not available. There are no provisions for early withdrawals for special reasons nor are loans or advances provided. This stringent policy emanated from 1998 when there were riots by members against misappropriation of funds by politicians who had used more than 50 per cent of the then available funds for housing loans. During the riots a state of emergency was declared and members were permitted to withdraw their balances from the fund. This resulted in a reduction in the fund balance to about 10 per cent of its pre riots balance. Since 1998 the fund has been restored to a respectable balance. Table 10 below shows the fund growth since 1987 and whilst the active membership had recovered to some extent, at the end of 1998 the total members' credits had only recovered to 25 per cent of the 1997 total. In 2002 the total members' credits finally exceed the pre-1998 total.

Table 4.10 VNPf fund growth

Year	Annual Contribution (VUV. '000)	Total Members' Credits (VUV. '000)	Active Contributors
1987	87,000	80,421	11,793
1988	255,289	321,658	13,655
1989	260,871	568,856	14,281
1990	307,217	867,872	15,104
1991	326,163	1,188,941	16,688
1992	378,532	1,562,795	17,502
1993	401,720	1,971,014	19,159
1994	418,027	2,398,625	20,084
1995	473,018	2,901,272	20,127
1996	470,342	3,356,021	20,237
1997	489,246	3,810,020	19,566
1998	497,214	965,116	16,163
1999	436,825	1,433,904	22,865
2000	725,986	2,114,368	26,976
2001	1,023,903	3,052,221	18,607
2002	1,084,789	3,991,006	17,297
2003	1,005,210	4,832,151	17,222

(iii) Compliance

The compliance process has been made difficult by the VNPF being refused access to data sharing by other government agencies including the rates and taxation office. This means that the VNPF is required to undertake a 100 per cent visitation program or business to business program to verify its contributor base. At this point in time the initial program is about 60 per cent complete and whilst the program is labour intensive it has enabled the fund to promote its services amongst employees and employers and raise awareness generally.

Some of the compliance issues are soft fraud from delays in payment and accumulation of arrears in payments but there are instances of serious fraud where employers deduct contributions from employees' salary but divert the funds for their own use and fail to make the contribution to the fund. Much of this fraud is identified by employees and the continued awareness campaign serves to alert the fund of these cases. Table 4.11 below shows the main causes of non compliance and the arrears owed to the fund

Table 4.11 Employer breaches

Type of Breach	No. Employers	Funds Owed (VUV)
Failure to pay surcharges	361	19,365,000
Failure to pay contributions	763	149,914,000
Complaints lodged by employees for failure to pay contributions	309	N/A
Failure to provide Employer details	440	N/A
TOTAL	1,873	169,279,000

Source: VNPF Annual Report 2003

In an effort to improve compliance a task force was established comprising the VNPF, Ministry of Labour, Financial Services Commission and assisted by the Vanuatu police force. The prosecution process is not simple as the approval from the Attorney General must to be obtained before charges can be laid and prosecution can be initiated.

The VNPF has identified a number of problems that inhibit its ability to enforce compliance of contribution to the fund and they are:

- Reluctance on the part of the legal system to allow prosecution of debtors to the fund which serves to encourage non-compliance

when breaches of the law do not attract any penalties;

- Inability of the government to comply with its contribution responsibility to the fund, this poor example serves to encourage other employers to default on their responsibilities;
- Reluctance of government and other agencies to share information with VNPF to assist in compliance and enforcement. Whilst it is accepted that the privacy principle must be applied, it is possible to develop data sharing arrangements for a specific purpose and carried out under strict controls. This process is highly developed in countries like Australia where scheduled data sharing is performed between Social Security, Taxation, Immigration, citizen's registration, employment and the banking system. It should be noted that data matching exercises are complementary exercises and usually benefit both parties in the exchange and they also serve to maintain consistency in government data sources; and
- Political interference by exerting influence on officers of the board and this is a very serious complaint that can only result in dire consequences that may approach the type of events that have plagued the VNPF in the recent past.

Box 4.1 Data matching

Data Matching

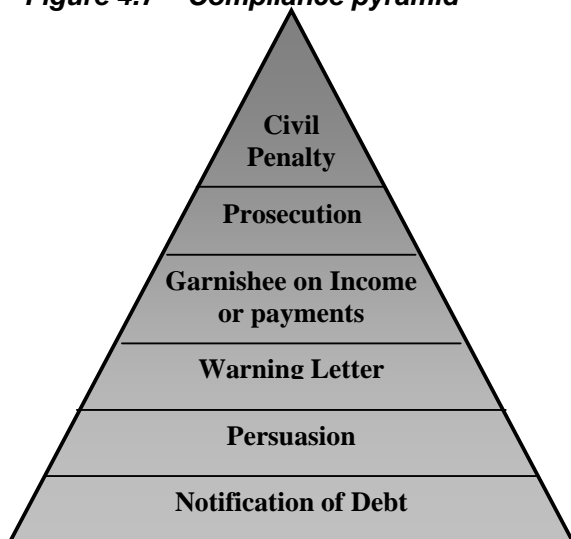
Data matching practices may be misunderstood by the various agencies because data matching does not mean that one agency provides all of its data to another agency for its unrestricted use. Most data matching exercises rely on the comparison of two sets of data from different agencies and the interrogating agency will have an indicator annotated to its data records that either confirm or deny a match with the other data. In this case the interrogating agency does not see or use the other data itself. In the case of VNPF and Rates and Taxation data, the data omissions on each record are probably more important than the exact data matches and these exception reports may be the desired outputs.

Controls need to be instigated to ensure that data copying does not occur and that the data matches obtained are used within a certain prescribed period and then destroyed whether or not they have been actioned. This requires a data supervisor to conduct and certify the data matching and subsequent destruction of data at the expiry date. The other controls can include limiting the number of matching exercises that can be conducted in any year.

Data matching between government agencies and subsequent data privacy can be determined by legislation and development of the data matching schedules. The technical issues also need to be addressed as conversion of data bases may be needed in preparation for each exercise due to the different database languages used and data structures, however these issues are less of a constraint than the legislation and the will of the various agencies to participate.

The Compliance Pyramid shows the degrees of intervention that may be required once a debt has been notified. The relative width is an example of how at each progressive level the cases become smaller due to the success of action at each stage. Prosecution and civil penalties are the last and most important part of the process as successful prosecution, duly publicised, serves as a deterrent that promotes higher levels of voluntary compliance.

Figure 4.7 Compliance pyramid



Despite the concerns of the VNPF with regard to compliance the actual compliance rate appears to be reasonably high given that the Labour Market Survey in 2000 identified 14,272 employees in the official formal economy and the active contributors to VNPF in 2003 was 17,222 which allowing for voluntary contributors and the revised definition of formal economy by the Statistics Department still presents a reasonable picture for compliance. What is beyond dispute however are the direct complaints from eligible contributors where their employers are not contributing to the fund or are deducting contributions from salary but not depositing them in the provident fund.

(iv) Investments

With effect from 1 January 2004 the *VNPF Act* has been amended to restrict the amount of the fund which can be invested overseas from 50 per cent to 15 per cent and this is expected to reduce returns to members because of the limited investments and returns available in Vanuatu.

The VNPF investment guidelines have been suspended pending the revised procedures that

are being considered by the Minister of Finance and the new guidelines are expected to be promulgated shortly and these guidelines will include the restriction on external investments.

At the moment VNPF is not permitted to invest in shares so most of its external assets are in the form of capital guaranteed schemes that give returns in the order of 4.75 per cent and some variable returns are in the order of 7 – 8 per cent. The current offshore assets are managed by the Bank of Hawaii.

For the period 1987 to 2000 the fund was required to return an annual dividend of not less 3 per cent to all contributors but this was changed with effect 2001 to return a dividend in accordance with the available surplus of funds. Returns on investment since then have been as low as 1.5 per cent and 2 per cent. Dividends are applied on the balance at the end of the first full year of contribution and annually thereafter. The VNPF self manages its property account but the situation with regards to property investment in Vanuatu is not very good and the three multi storied buildings (one in Santo) owned by the VNPF have only 50 per cent occupancy rates and the domestic residence on the portfolio is also vacant.

Table 4.12 Distribution of Investment Capital

Investment	2003 (VUV '000)	2002 (VUV '000)
Vanuatu term deposits	1,680,000	1,300,000
US cash management fund	273	7,704
US treasury notes	655,625	719,521
Vanuatu government bonds	1,581,100	1,116,100
Investment property	532,865	500,668
Loan to Vanuatu government	225,000	225,000
Commercial loan	125,000	125,000
Plant, equipment & other capital	110,405	88,371
TOTAL	4,910,268	4,082,364

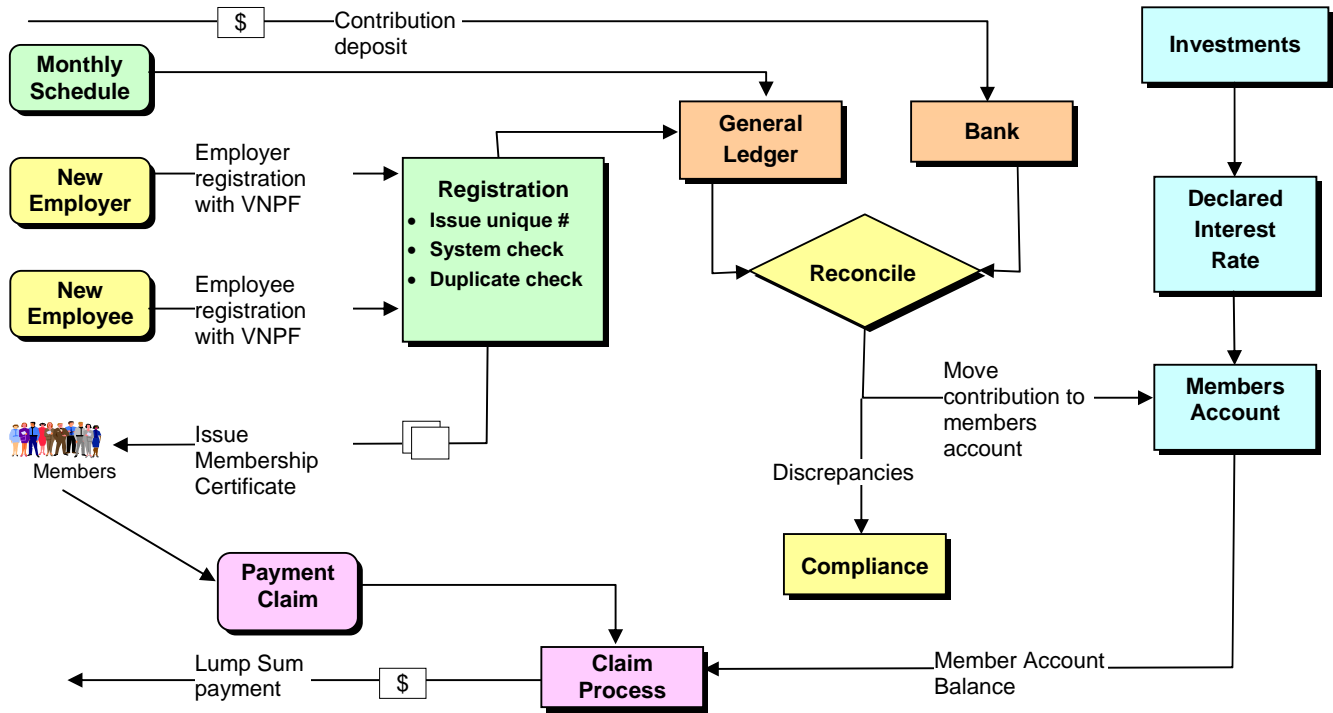
Source: VNPF Annual Report 2003

It is interesting to note that the biggest debtor to the VNPF is the Vanuatu government where in 2003 VUV. 1,905 billion was held in bonds or loans to the government which represents about 39 per cent of the VNPF investment capital. Annex 1 shows the operating statement for 2003 and a statement of movement in members' funds.

(v) *Operations and IT*

Figure 4.8 shows the processing overview for VNPf and the basic investment and claims process

Figure 4.8 VNPf processing overview



(vi) *Information systems*

VNPf manages its member's accounts on a system titled *Maximise* that is *Informix* based and contains both the members' contribution details and also the general ledger. The program is installed on the VNPf's own servers in Port Vila that use the *Linux* operating system. A daily data backup process was implemented in 2003 so that backup servers duplicate the current data to protect the VNPf against serious equipment failure. Desktop software is *Microsoft 2000* and *Office 2000*. The *Maximise* software is leased from Integrated Technical Group (ITG) from New Zealand and all high level maintenance and any upgrades and changes are sourced out of NZ.

Human Resource Management systems are based on Microsoft Access database software and the financial systems are mostly Microsoft Excel based that support management of term deposits, bonds, loans and the property portfolio.

In 2003 the VNPf developed in-house software that included:

- An enquiry and complaint system for the Santo branch. This system enables branch officers to register and monitor progress of complaints received from employees;
- A withdrawal control system;
- Employer and employee address labelling system; and
- Construction of the VNPf website.

There are currently 2 permanent IT staff including one trainee.

Immediate priorities for IT in VNPf are to upgrade the old and obsolete items of hardware and to continue development and maintenance of the small-scale support programs.

4.8.2 *Workers compensation*

All employers in Vanuatu are required to provide Workers compensation for all employees and to hold appropriate insurance policies that cover their workers. The 1987 legislation has recently been enacted to provide the legal basis for compliance and enforcement of the provisions. There are some exemptions from the mandatory insurance provisions and they relate to government, family businesses that employ family members, domestic workers and in the fishing industry where payment is by share of the catch. The logic for exemption of the public sector employees needs to be explained as they are covered by internal workers compensation provisions and the total cost of this should be compared with the cost of equivalent policies provided by insurers. Exempting the public sector from the insured pool serves to reduce the pool, increase the risk and tend towards adverse selection of the blue collar occupations where traditionally claims are higher due to the nature of the work. Including public sector workers could spread the risk and group policies from the insurance companies could provide attractive premiums.

The Financial Service Commission is responsible for financial regulation of insurers in terms of reserves, risk, investment guidelines etc and the compliance and workplace safety elements of the scheme are the responsibility of the Department of Labour. The Department of Labour commissioned a review of worker,s compensation in 2002 and the outcome was comprehensive draft legislation for the recommended scheme. Whilst it is probably appropriate to review this document, one of the most contentious issues contained in the draft legislation is the transfer of the workers compensation system to direct government control, most likely through a new agency or as a separate fund administered by the VNPF.

Immediate ramifications of this policy would be to place the existing insurance companies under some pressure as the loss of a large portion of their business could make some companies reconsider their commitment to the insurance

industry in Vanuatu. However this would eventually equalise with fewer local companies which have already reduced in numbers from eight in 1997 to three in 2004.

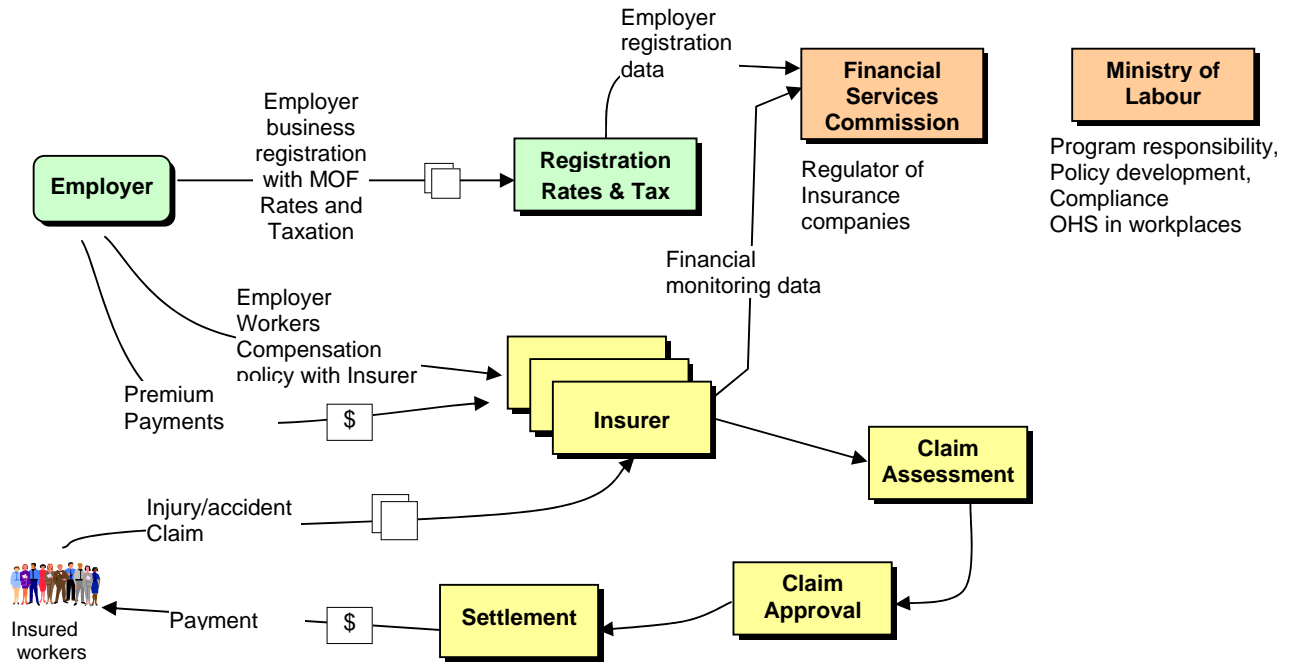
The ramifications of establishing a new agency would also be substantial as establishing a new insurer will require specialist expertise, including competent managerial, actuarial and service delivery staff. Whilst some of this expertise may be obtained from staff laid off from the insurers, additional skills will almost certainly need to be recruited.

Before such a decision could be made it would be necessary to identify shortcomings and risks in the existing system and devise strategies that improve outcomes. Some of these issues might include:

- Management and control in a system with four key stakeholders:
 - employer registration of business names (MOF, Rates and Taxation);
 - regulation (VFSC);
 - policy, program responsibility and compliance (Department of Labour); and
 - service providers (private insurance companies).
- Roles and responsibilities of the key stakeholders in the process;
- Transparency in the operations of insurers where currently minimal data is provided to regulators, the Department of Labour and to the public;
- Publishing of annual reports on the performance of the funds by each insurer;
- Long term commitment of insurers to workers compensation in Vanuatu.

It would also be desirable to consider the options and the business cases for maintaining the current system with additional controls described above and a single government controlled Workers Compensation Agency. The comparative advantages and disadvantages and the ramifications would assist in making the best long term decision for Vanuatu.

Figure 4.9 The current workers compensation system



The existing system has a number of weaknesses and it is evident that the responsible authority for workers occupational health and safety and the workers compensation program (Department of Labour) is unable to carry out its responsibilities due to lack of suitable management information. As a result of this the department is currently unable to advise the government on issues such as:

- The number of workers with workers compensation cover;
- The number of workers without cover;
- The identity of employers who are in breach of the workers compensation legislation;
- The premiums being charged to employers by the insurance companies;
- The benefits being paid for the range of injuries by the insurance companies;
- Companies with high rates of claims for injuries;
- Workers who have died or been permanently disabled in the workplace;
- A breakdown of the claims patterns and types of workplace injuries;
- The income, expenditure, cost of administration and profits made from the workers compensation fund;
- A national compliance plan to specifically target those employers in breach of the legislation; and

- A comprehensive safety improvement program based on those workplaces with high workplace injury and illness rates.

The Ministry is forced to conduct 100 per cent compliance and safety reviews to all workplaces in Vanuatu; this is clearly inefficient and intrusive on employers with good safety records. As a random process, it may not initiate intervention programs on some critical employers until later in the review cycle which is likely to take an extended period to complete. This type of review program has been shown to be ineffective and costly.

The Department of Labour must be able to:

- Match on a regular basis, data of employer registration against employers with current workers compensation insurance premiums to identify those in breach of the legislation. The accuracy of registration of business names and current operating businesses is questionable as sleeping businesses may still have a business name. The active contributors to VNPF is also another indicator, albeit the accuracy is subject to degree of compliance of VNPF contributions;
- Be advised by the insurer and employer immediately of all claims resulting from

serious injury or death to enable immediate investigation and to promote remedial safety actions in that workplace and in some cases initiate prosecution action; and

- Monitor the pattern of workplace injuries through timely and regular information based on claims and injury reports.

If this information is not obtained from the claims processing sources then the Ministry would have to introduce a separate reporting process by employers so that copies of all claims emanating from major injuries would be sent to the department at the same time as to the insurer. This duplication would be expensive and unnecessary and from experience in other countries is a task that lapses fairly soon after implementation and is ultimately ineffectual.

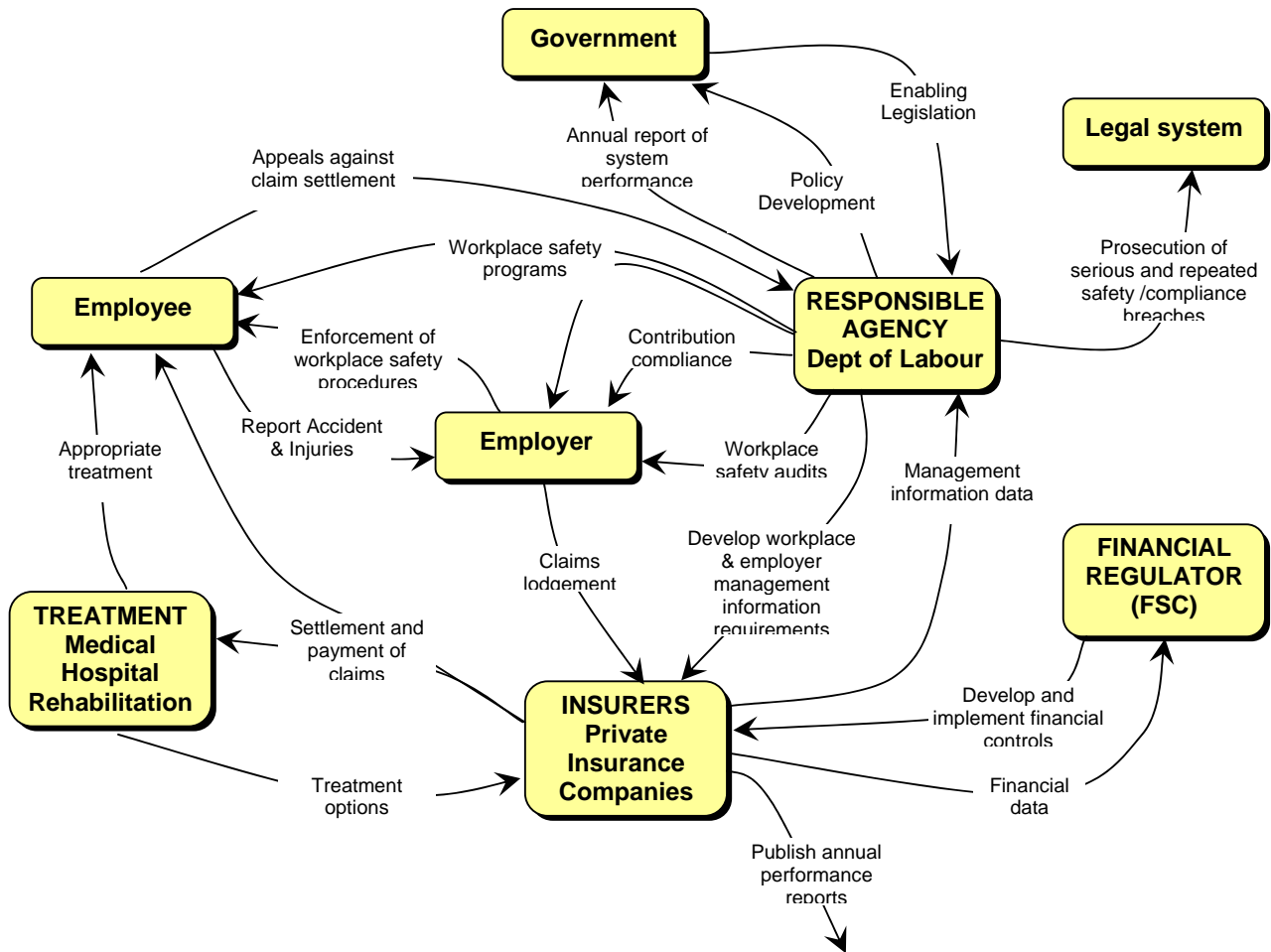
These situations do not arise in typical integrated workers compensation systems where one agency (usually the government) has a substantial role in the processing of claims as well as developing policy and legislation. However because of the special nature of the existing process in Vanuatu where four key stakeholders are involved (this excludes the employers, employees, medical and rehabilitation agencies) an agreed automated management information transfer system needs to be introduced and for it to be effective it should be legislated so that the roles of administrators are clearly defined and enforceable.

The workers compensations context diagram shown in Figure 4.10 below is an overview of how the interrelationships between key

stakeholders may be structured in order to produce an integrated solution by using the distributed agencies that currently exist in Vanuatu. Whilst this is a simplified overview it shows the context of the overall system and some of the key functions that need to be carried out and the feedback loops that are essential in an effective workers compensation system. Improvements in workplace safety can only come from the bootstrapping effect that provides positive re-enforcement and rewards for good workplace safety and penalties for poor workplace safety practices. The responsible agency as a government department which has quasi police powers of entry, search and prosecution is the only logical agency to carry out the overall improvement and system management functions.

A fragmented system such as the current system in Vanuatu also presents some financial problems for the responsible agency when it has no control over the income of the funds. As a result, the entire cost of work-safe promotions, compliance and other related functions are funded from the agency budget (i.e. government). In an integrated system some of these costs would be funded out of the program contributions, however in Vanuatu all of the financial contributions are retained by the insurers. As they are responsible for only one part of the program (claims management), the government is now required to fund the improvement programs. A review of the entire program may address this issue.

Figure 4.10 Vanuatu workers compensation context overview



During this review issues such as medical assessments, medical boards and associated issues were not examined in detail partly because much of this is controlled by the insurance companies who are reluctant to participate in the review at this stage due to their concerns about issues of *commercial in confidence* and privacy. This appears to be part of the culture of business in Vanuatu where the tax haven status encourages limited transparency in business operations. These issues will need to be addressed formally in any subsequent review that has clearly defined terms of reference approved by the government.

It should be noted that the medical and other administrative issues necessary for a complete workers compensation scheme have not been considered during this overview however they will be considered as part of a complete review.

It is recommended that a review of the system should be undertaken by an appropriate specialist to determine from all key stakeholders their

needs, and to ensure that each stakeholder is focused on maximising the benefits to employers and workers by improving workplace safety, minimising premiums, and maximising benefits. The review should present options for improving the existing private insurance based system including the necessary legislation and compare it with the draft legislation prepared in 2002 for a government based proposal.

4.8.3 Health care and social health insurance

The health infrastructure in Vanuatu is quite reasonable in terms of distribution of services in the main population centres although the country suffers from lack of suitably trained personnel and donor support is used to provide additional expatriate medical personnel. There are 5 central and district hospitals with total bed capacity of 360, 22 health centres, 77 dispensaries and 187 aid posts. The major problem is shortage of trained medical personnel.

Health services are funded by the government although user fees are charged for hospital inpatients in the newly emerged private clinics and overseas referrals. The government spends about 4.3 per cent of GDP on health care or about 12 per cent of the government budget outlays. WHO estimated that in 2001 about 64 per cent of health expenditure was funded by the government with the remaining 36 per cent funded by user fees or out of pocket expenses.

There are limited health insurance options in Vanuatu where two private insurers provide private health cover mainly to expatriates and small scale schemes like the VUVU scheme, employer re-imburement for small numbers of employees and government refunds of health costs for civil servants who use government hospitals.

A recent WHO sponsored mission by a health insurance consultant has recommended that;

- A working group on health insurance reform be established to progress the current proposals;
- Development of a health insurance master plan;
- Promotion of health orientation workshops and study tours by international donor organisations;
- Initiation of a draft regulatory framework for health insurance and private sector development; and
- The working group to seek technical assistance and policy advice to draft a policy paper and legislation on social health insurance.

It has been agreed by ILO and WHO at both sub-regional and regional level that both organisations will work closely together and with the governments of the respective countries to advance the process of developing effective and sustainable social health insurance systems.

4.9 Other social security programs

4.9.1 Insurance in Vanuatu

Vanuatu Financial Services Commission (VFSC) is the regulator for credit unions and insurance companies in Vanuatu. Unfortunately there are currently no credit unions operating but the precursor to credit unions, called savings clubs, are operating predominantly in rural areas. The savings clubs are registered with the Credit

Unions League and are fostered until they become independent enough to become credit unions in their own right. There are two main life insurance companies in Vanuatu, QBE Insurance and the Australian Family Assurance. Whereas QBE concentrates mainly on worker's compensation, most life policies are underwritten by AFA which has the teacher's union and government workers as major clientele. The system appears to work well with clients able to borrow against their insurance policies for a range of needs and this assists borrowers to overcome the collateral constraints placed on them by private banks. Unfortunately details of the policies and statistics were not available from the AFA where the managing director refused to cooperate with the project as he felt that it was impinging on his business, and refused to provide any information or details. The meeting was abruptly terminated. Life insurance policies are not regarded as collateral for bank loans.

There are 5 local insurance companies operating in Vanuatu including the two major companies and one headquartered in New Zealand. In addition to these companies there are insurance brokers or agents who provide insurance packages for clients through the major companies.

Vanuatu also provides tax and other benefits for offshore insurance companies to register in Vanuatu and there are currently about 43 offshore insurance companies that take advantage of this system although they do not operate or provide insurance products inside Vanuatu.

The VFSC regulates the insurance companies by focusing on the risk to investors and whilst it does not regulate investments it considers the risks of those investments relative to the reserve pools and to the policies underwritten. New legislation for insurance regulation has been prepared and is expected to be discussed in parliament early in 2005.

4.10 Microfinance

4.10.1 Cooperatives

The Cooperative Development Fund (CDF) was established in 2000 as a unit within the Department of Cooperatives to promote the development of cooperatives in rural areas and to market agricultural products in new markets; however most cooperatives trade as consumer

and village stores. The CDF is funded by grants from the government for the infrastructure development and establishment of the cooperatives and provides loans to cooperatives only.

Loans are provided in relatively large amounts, up to VUV 5 million. The annual interest rate is around 12 per cent over the standard five year term of the loans. The loans are serviced by monthly repayments although some cooperatives have chosen to make fortnightly repayments. Loans also have a three month grace period before repayments must commence.

The initial capital of the fund was provided by a grant of VUV 122 million from the People's Republic of China in 2001 when the fund commenced operations. By 2003 53 loans amounting to about 90 per cent of the total funds has been disbursed which suggests an average loan of more than VUV 2 million. The majority of loans were used for stock purchases at the consumer cooperative stores and the loans have been evenly distributed across the main 15 islands.

The cooperatives are established at village level as multipurpose cooperatives to market agricultural products such as cassava, kava etc and to operate village markets and stores and in doing so may buy in raw materials or products from other islands. Some of the income from the enterprises is reserved for savings that can be used by members as loans for prescribed needs. Whilst the cooperatives are setup with the sanction of the village chief, the chiefs usually have little to do with the operations of the cooperatives and may receive some annual gratuity from the cooperative in accordance with village traditions.

The cooperatives are owned and managed by the members and decisions are made by the cooperative committee for all operational matters. The cooperatives serve to strengthen Vanuatu Kastom as they tend to complement or parallel the existing village structures.

There are 274 cooperatives registered in the 6 districts in Vanuatu but only about 200 are active. Details of the cooperatives are not available and the new Director is in the process of commissioning a database so that a full description of all of the cooperatives can be

maintained to assist with development and management of the cooperatives.

The situation with respect to loan repayments is currently uncertain and in 2004 loan approval ceased pending an audit and review of the fund liquidity. Internal estimates identified loan repayments of about VUV 25-30 million against and ADB unofficial estimate of about VUV 50 million that should have become due during the period. The auditors report has not yet been released but liquidity has been estimated at about VUV 35-40 million.

At this stage there are plans to establish a separate institution under the Cooperative Status Act that will be independent from the government and transfer the CDF to this new institution. This institution would be expected to evolve into a professional financial institution. The long term vision is to establish a cooperative bank to complement the new institution and its local activities.

The most recent review of cooperatives in Vanuatu was conducted in August 2004 as part of an ADB funded Rural and Microfinance Outreach technical assistance project. The previous review was believed to be a joint UNDP/ILO review conducted around 1998.

A summary of the distribution of the cooperative Development Fund is shown in table 13 below.

Table 4.13 Cooperative development fund – distribution of Loans

Province	Island	VUV (million)	Provincial %
Torba	Gaua	4.5	
	Vanualava	3.7	
	Avar	1.5	
	Sub-total	9.7	9%
Sanma	Santo	14.6	
	Malo	1.5	
	Mavea	0.8	
	Sub-total	16.9	15%
Penama	Ambae	7.8	
	Pentecost	9.3	
	Sub-total	17.0	15%
Malampa	Malekula	11.9	
	Ambyrn	10.0	
	Paama	3.6	
	Sub-total	25.5	23%
Shefa	Efate	29.8	
	Epi	6.4	
	Sub-total	36.2	33%
Tafea	Tanna	4.2	
	Futuna	0.6	
	Sub-total	4.8	4%
TOTAL		110.1	100%

Source: CDF 2004

4.10.2 *Ni-Vanuatu micro-finance scheme (NVMS)*

The Ni-Vanuatu Business Centre is an NGO that was established in 2000 under the Charitable Association Act and directed by the Department of Ni-Vanuatu Business and commenced operation in March 2001. The NVMS was established by a grant of VUV 110 million from the People's Republic of China to provide loans to individuals in two categories:

- Micro loans of VUV 30,000 to 100,000 for terms of 6-12 months, and
- Small loans VUV 100,000 to 2 million for terms of 12 to 36 months.

The conditions of the loan include an interest rate of 10 per cent per annum on small loans, a loan processing fee of VUV 3,000 and for small loans a cash deposit is required as security.

Since 2001 around 188 projects have been funded with average loan values of VUV 400,000 and a total of VUV 76 million which represents about 70 per cent of the loan portfolio. About half of the loans were granted for project on Efate with the remainder distributed throughout the country.

Information about loan repayments is limited and much has been obtained from press reports which have suggested weak repayments and at December 2002 had fallen to 25 per cent of the total due i.e. only VUV 1.6 million from VUV 6.3 million due. This implies an arrears or default rate of 75 per cent. Closer analysis suggested that the main defaulters were the larger borrowers (VUV 1 – 2 million loans) and logistic problems have contributed to this state of affairs. The NVMS has few staff outside of Port Vila to make regular assessments of borrowers and the repayment mode through the National Bank of Vanuatu was made difficult though lack of branches in rural areas. This has since been improved with the extension of the NBV network across the country.

Vanwods is a microfinance institution that was established in 1996 by the Department of Women's Affairs as part of the gender mainstreaming commitment made by the government. Its immediate aims were to assist disadvantaged women although in the future it is anticipated that men will be able to be members. Vanwods was formed as a savings/credit NGO assisted by financial support from the UNDP and

the government of Vanuatu. The initial seed funding was provided as a grant by the donors. The institution accumulated 800 members between 1996 and 2001 when its status was changed from an NGO to a financial institution and it is now regulated by the FSC under the Charitable Institutions Act.

The change in status has required Vanwods to go back to basics to rebuild the institution along sustainable financial lines although currently its administrative overheads are funded by UNDP and the government. As a financial institution Vanwods is now expected to achieve sustainability. The ensuing change process has limited the opportunity to expand the membership which is now about 500, although total lending increased from about VUV 39 million in 2002 to VUV 42 million in 2003.

Vanwods is focussed around the Port Vila area mainly due to the need to concentrate the labour intensive activities of maintaining the group cohesion, conduct of weekly meetings, small business training and the contribution collection processes. Vanwods operates with 10 staff in the Port Vila office and three mobile credit field staff. Members who are assessed as offering low risk are able to access loans of between VUV 25,000 and VUV 75,000 for general business development, market vendors, crafts and vegetable growing and sales. Previously all loans were charged interest of 16 per cent with an administration fee of 6 per cent. New solidarity loans retain the original rates but commercial loans now attract a higher interest rate of 18 per cent and both loans still pay the administration fee.

In addition to solidarity loans for education, housing improvement, household assets and calamity, members are able to contribute to a mutual fund with contributions of VUV 25 per week. The accumulation of savings is converted to micro-insurance where members are insured for sickness and death when outstanding loan balances are paid out and VUV 10,000 provided to spouse and children. The death benefit is doubled after 2 years of membership.

The group liability concept and weekly contact with loan groups has ensured that loan defaults are rare. All micro loans schemes are licensed by the Department of Cooperatives.

Vanuatu Teachers Union (VUVU) maintains a social insurance and a savings and loan scheme for union members which is a self managed social insurance scheme that is authorised by the Trade Union Act. Individual members can make contributions of VUV 1,850 (VUV 1,350 with a spouse member) to be eligible for the full range of services provided by the VUVU. The distribution of the contribution is:

- VUV 650 for union subscription,
- VUV 200 for savings scheme,
- VUV 500 for medical benefits, and
- VUV 500 for retirement and death benefits.

Members are able to access a maximum loan of VUV 35,000 from the savings and loans scheme at an interest rate of 10 per cent which compares favourably with current commercial lending rates of the order of 15 per cent. In addition, collateral is provided by virtue of employment as a teacher and a member of the union. The combined social insurance premium of VUV 1000 per month provides the following cover:

Table 4.14 Teachers savings and social security scheme

Medical Benefit	Limit (VUV)
Ambulance services	40,000
Hospital service	40,000
Surgery	40,000
Day care	40,000
Day care surgery	40,000
Dental	17,000
Optical	20,000
Remote area transport to nearest hospital/clinic	20,000
Maternity	15,000
Maternity treatment in Vanuatu for life threatening ailment	100%
Inter island evacuation	20,000
Death Benefit	
Funeral expenses - spouse	100,000
Funeral expenses - member	150,000
Funeral expenses - member	50,000
Member retirement benefit as shown below	
Retirement Benefit	
VUVU member < 5 years	25% of total retirement
VUVU member > 5 < 10 years	50% of total retirement
VUVU member > 10 years	60% of total retirement

Source: Vanuatu teachers union, September 2004

In addition to the VUVU social insurance scheme all teachers are covered for workers compensation by the government at 100 per cent compensation rate for injuries and illness.

The VUVU social insurance scheme is managed by a committee that determines the benefits to be

paid to eligible members and the process is controlled by four staff in the VUVU office in Port Vila comprising a manager, accounts clerk and a welfare officer for social insurance and for the savings and loan scheme.

The VUVU has about 1,300 members which represent about 90 per cent of the teachers in Vanuatu. The scheme is cost effective as contributions are made as group deductions from salary as a pool deduction from the government payroll.

Vanuatu Public Service Association has the potential to capture almost 4,000 public servants and is in the process of planning for a social insurance and savings scheme along the lines of that which is currently operated by the VUVU. Negotiations are being conducted with VUVU, local insurance companies and members of the association and the government.

The National Bank of Vanuatu (NBV) is now a successful government bank that returned a dividend to the government in 2003 for the first time in its history. As a result of corrupt practices and political interference in 1998 the bank turned VUV 200 million in capital to a VUV 400 million loss mainly due to poorly secured loans. A Comprehensive Reform Process (CRP) of financial institutions was undertaken with ADB assistance that resulted in restructuring of bad loans and the closure of the Development Bank of Vanuatu.

Despite being required to carry some of the bad loans, the NBV has now built up a base of international and commercial loans totalling around VUV 2 billion. It has also introduced a new banking IT system with electronic banking including ATM's to be introduced in 2005. The Bank has on-line connectivity to three branches on other islands and is in the process of expanding its branch and agency network to all parts of the country.

The NBV is one of the key stakeholders in a new micro-finance system being implemented in Vanuatu with assistance from the ADB. The pilot programme was conducted on the island of Tanna in Tafea province and based on international best practice. The success of this pilot has resulted in the formulation of the national microfinance policies. The next step in the process before the government considers the proposal is the outcome

of a study tour to Indonesia to compare the proposal with other microfinance systems.

The Ministry of Finance has received a proposal for a national microfinance system that was prepared by an ADB funded consultant in conjunction with the government and the National Bank of Vanuatu.

Vango is the umbrella body of about 78 member NGOs and was established in 1991 as the national coordinating body for NGOs in Vanuatu. The role of Vango is to strengthen the capacity of NGOs as well as facilitate the outreach of services to disadvantaged groups and people at grass roots level. It also aims to coordinate involvement in cross sectoral issues and to assist the NGOs to react to national issues. A list of the NGO members of Vango is provided in Annex 2.

Vango has signed a memorandum of understanding (MOU) with the government on how the NGO's will assist with the critical issues affecting Vanuatu society. The MOU identifies the items of commonality between the government and the NGO's and serves to define and publicise them. The MOU focuses on Development, reducing poverty of opportunity, capacity building, sustainability, gender, good governance and development education. The MOU also defines the relationship principles

between the government and the NGOs and in particular mutual respect, independence, accountability, participation, dialogue and simplification.

The government and Vango have agreed on issues of funding and accountability, policy development and consultation, good organisational practice and to progress the MOU into a Memorandum of Agreement to facilitate the MOU into an action statement and procedures.

4.11 Summary of social protection programs in Vanuatu

Table 4.15 shows a comprehensive list of many of the major social protection programs that can be provided for vulnerable and disadvantaged members of society. The responses in the *currently available* columns generally refers to those widely available and where there is only very small isolated instances of available services then the response is shown is *no* although this is qualified in the remarks column of the table. It should be noted that this is a subjective view based on the best available knowledge at the time of compilation and is subject to change as new programs become known.

Table 4.15 Social protection programs in Vanuatu

Sector and Programs	Currently Available		Remarks
Labour Market			
Vocational training	Yes		
Income generation programs		No	Not part of labour but part of microfinance
Labour standards	Yes		
Apprenticeship training		No	
Gender equity programs		No	Mostly fragmented but not in labour
Collective bargaining	Yes		
Structural adjustment assistance		No	
Micro enterprise development	Yes		But only as part of informal microfinance schemes
Anti-exploitative programs		No	
Affirmative action programs		No	
Occupational health & safety	Yes		Formal employment sector only
Social funds		No	
Job seeker program		No	
Labour exchanges		No	
AIDS in the workplace programs	Yes		Some in formal sector only. Little penetration in rural areas
Social Insurance			
Old age pensions		No	Provident fund is lump sum
Disability benefits	Yes		Part of VNPF, formal sector only
Survivor benefits	Yes		Part of VNPF, formal sector only
Work injury insurance	Yes		Through private insurance schemes, compliance questionable
Private pensions		No	Minor mostly expatriate superannuation
Maternity benefits	Yes		Part of public sector and employment conditions, formal sector only
Unemployment insurance		No	
Sickness insurance		No	
Social health insurance		No	

4.12.2 National machinery for women and gender affairs

The eventual outcome of government efforts towards the integration of women in development was the establishment of the Department of Women's Affairs, as a separate unit of its own in 1993 under the Ministry of the Prime Minister. Prior to this, it was under the Ministry of Home Affairs portfolio in the Culture, Religion and Women section. During the 1980s, it was based in the Ministry of Education, with the Social Affairs Unit. It is now anticipated that the government will recognize the important role that the Department plays with the pressing issues ahead and begin to think seriously of establishing the Department as a separate Ministry of its own.

The Government's Comprehensive Reform Program (1997) specifies the following areas for monitoring gender equity:

- Data must be gender disaggregated and awareness raised on the need for gender analysis of data in all sectors;
- Review of all legislation to ensure a gender dimension into the collection and analysis of statistics;
- Gender awareness education integrated in government and donor sponsored communities;
- Develop policy and legislation on violence against women and children – including rape, incest, domestic assault and sexual harassment;
- Create a working group to coordinate and monitor ; and
- Appoint a Planner with the specific responsibilities for gender policies and programmes.

4.12.3 Education

Education is a major concern in Vanuatu. Gender disaggregated data from the Department of Education still indicates many gender disparities. The enrolments in schools now show some gains in equality in the primary sector - in 2001 about 50 per cent of all children aged 4-6 years attended pre-school and approximately 50 per cent of these were females. At the lower secondary level, the ratio of girls to boys falls to 75:100 and at tertiary level to 29:100.

Women in Vanuatu are less likely to have been to school than men and have lesser qualifications

than men. Rural women have less qualification than urban women. Females have a higher acceptance rate at Year 7 and yet males finish with higher qualifications than females. There is no clear reason for this occurrence and more information is necessary before any conclusions could be drawn. In 2001, males outperformed females in the Pacific Secondary Certificate examinations.

4.12.4 Gender and economic empowerment

Vanuatu is one of the least developed countries of the world with only 2 per cent of its current adult population in the wage economy. Of these 2,922 are men and 1,553 are women employed in the government sector.

In both the public and private sector, women are over-represented in occupations that are stereotypical. Employment data clearly indicates that women are significantly under represented in senior level positions with only 40 of the 368 (9.2 per cent) of management and political leadership positions occupied by women.

The shortage of professionally qualified women in many areas of employment may contribute to this situation but in no way validates it. The Public Service Staff Manual makes provision for a female permanent staff to be entitled to 12 weeks maternity leave on full pay. The maternity leave may commence 6 weeks before the confinement and confinement must be certified by a doctor. On return to work, a mother is given 15 minutes, 4 times a day to nurse her child. A male staff member gets one day's leave on full salary upon the birth of his child.

In addition, the Employment Act makes provision for maternity leave in the private sector upon submission of a medical certificate to be confined within 6 weeks and not to work following 6 weeks after the confinement. The entitlement provisions require payment to be not less than half the pay earned and the person should not be regarded as absent from work.

Vanuatu's ranked 140 on the Human Development Index, with HDI of .425 and GDP per capital of USD 1182.00, this figure may not be representative of the realities as 78 per cent of the population are rural based and therefore mainly subsistence growers with some cash

cropping. A small business sector largely owned by non-Ni-Vanuatu weighted against the rural income could camouflage the minimal amounts available to the Ni-Vanuatu women. Although most Ni-Vanuatu people do not have regular income, most dwell on their own land. Copra, the primary cash crop is the main source of cash for school fees for girls.

4.13 Initial observations of social security programs

The *social security gaps* in Vanuatu are substantial with the formal economy workers protected against some loss of income due to age, death and disability through the provisions of the VNPF. Basic health cover is provided by the government with a moderate charge levied on hospital care and whilst workers compensation is compulsory, the degree of compliance is uncertain due to the fragmentation and lack of coordinated management information available about the system. Motor vehicle third party insurance is also compulsory being part of the vehicle licence fee. Apart from selected private insurance and micro schemes through credit unions and union schemes, the majority of the population have no social security coverage and workers in the formal economy have access only to selected programs. Limited coverage for loss of income from sickness, unemployment, maternity, invalidity and for widows is unavailable to almost all of the population. Only some of the population have access to retirement, invalidity or death benefits. Social assistance and welfare payments are provided only by NGO's and donor agencies.

There is *no central or coordinating agency* to promote policy development and provision of social services. Development and job creation are the government's main priorities with the majority of the population expected to benefit from the trickle down effect from the jobs created by the development programs. As in many other developing countries this has not eventuated with most economic growth being associated with low employment. This together with low economic growth has been insufficient to absorb the new entrants into the workforce resulting in pressure being placed on the informal economy which continues to absorb the bulk of the new entrants into the workforce.

Whilst job creation is one of the surest ways to increase resilience of the population against

poverty there needs to be some *balance between development and social security* which is the other means of increasing resilience against poverty. Social Insurance by way of the savings invested in the funds can moderate fluctuations in the economy and the effects of economic downturns can be minimised by social security payments from the funds. This tends to sustain individual domestic purchasing power which can support the local economy. Social security payments can also defer the time at which households begin to divest themselves of assets, mostly at considerable loss in order to sustain themselves in times of loss of income.

Assistance to *victims of natural disasters* is still very much reactive and the government's requirement for all Ministries to develop proactive programs has apparently not yet been completed. Vanuatu does have a disaster management system, with a National Disaster Plan and a National Disaster Executive Committee (NDEC). However, the NDEC meets only during disasters, and the capacity of the National Disaster Management Office is weak due to poor management, insufficient funding and lack of influence.

It is evident that without a centralised social welfare policy unit the welfare and social assistance components of disaster recovery will be difficult to implement and individual sectoral programs are likely to lead to fragmentation of services. In order to alleviate the immediate effects of a natural disaster, a welfare program of immediate cash or benefits in kind can assist the local economy to recover more quickly by allowing purchase and recovery of local resources. However these in-kind and cash assistance programs need to have national and local components coordinated by the disaster recovery command team.

4.14 Government policy on health and social equity

The most succinct statement that could be found about government policy was tabled as part of the *Fiscal Strategy Report, 2004* (National Budget) and is reproduced below.

The government recognises that economic growth, which benefits only a few people in the economy, is not desirable. This may lead to social injustice, which in the long run would only disrupt the process of development. Therefore the

government emphasises that the benefits of economic growth must be distributed fairly and evenly among the population.

Furthermore, it recognises that improved education and health services are important preconditions for development. That is, a well-educated and healthy population is important for the attainment of national development.

Whilst the government is committed to continual improvement in the quality of both the formal and informal education, the quality of human resources, and the introduction of more effective and sustainable management of the education sector, there is a general sense that progress has been limited. A renewed focus on quality basic education as the foundation for Education For All will ensure that all sectors of the population, especially in the rural areas and those disadvantaged and disenfranchised, will have access to quality education, and will thus emerge with the knowledge and skills required for sustainable development in Vanuatu.

Health service delivery is also a priority area under the Comprehensive Review Program that was introduced in 1998. It recognises that, for any country to move forward in its development, it needs a healthy population and a healthy economy. A nation's health is the key element in determining the long-term economic performance and development path. The Department of Health is currently reviewing its structure with a view to achieving better and more timely service delivery.

The general view of key stakeholders is that little of this has yet been translated into action over the life of the government, however given that this was a 2004 budget statement and that if a broader tax base is introduced then there will be some room for the government to manoeuvre on social protection, particularly in the area of social assistance and welfare.

4.15 Immediate technical assistance needs

In the initial visit by the CTA and Gender Specialist the immediate needs that were identified and requested in Vanuatu included:

- Vanwods micro credit agency requires some guidance in its transition from a donor funded agency to self sustainability. It also requires guidance on how to expand its services beyond the confines of Port Vila (which represents only about 15 per cent of the population) in order to reach more people on the island of Afate and in the other six provinces in Vanuatu. The type of support offered by the ILO STEP programme should be investigated;
- The Ministry of Health and WHO have conducted preliminary studies on alternative means of increasing health funding including some form of social health insurance. As this is a common concern for most of the countries participating in this project, a feasibility study on health insurance options should be expedited. It was agreed with the country director of WHO that contact would be made with the respective offices in Manila to look at top down coordination and presentation of a common strategy for the government on social health insurance;
- The workers compensation programme in Vanuatu is fragmented and lacks central control and monitoring, the details of which are discussed earlier in this report. A review of the existing hybrid system and the previous recommendation for a government controlled system should be conducted to provide the government with viable options for a comprehensive workable system;
- If the government wishes to achieve its goals stated in the budget preamble then some form of *social protection reform task force* should be established to coordinate the activities of the various stakeholders and to direct social policy at the national level. A subset of the task force may form part the steering committee for this project.

Chapter 5 Survey of Workers in the Informal Economy and Formal Employment Sector

5.1 Vanuatu informal economy survey

5.1.1 Background

The aim of the sample survey of workers in the informal economy was to obtain some indicative parameters about the workers and their priority social security needs, who provides or will provide for these basic social security needs, gaps in coverage, and their potential to contribute to voluntary schemes. The survey also recorded some of the demographic and other details about the workers including their income patterns, work category, insurance and micro finance and membership of organisations.

5.1.2 Methodology

The survey was planned within the constraints of data availability and attempted to match the sample to the population distribution across the geographical zones where the informal employment sector occupations could be identified. Within the sample zones the participants were selected as randomly as possible and care was taken to avoid bias in the samples. Details of the data sources and sample selection are discussed below.

The data collection form and supporting instructions are provided in Annex 3. It should be noted that the terminology used in the form was interpreted by the data collectors and presented to the participants in local language. A critical issue in the conduct of the surveys was providing data collectors with a good understanding of the requirements and their ability to translate the terminology into colloquial language. The data was collected by school teachers on semester vacation and members of the VNPF staff following briefings and form testing by the National Project Coordinator. The samples in Vanuatu were taken from three locations, Sanma, Shefa and Tafea.

5.1.3 Sample selection

In Vanuatu there are 76,370 economically active members of the workforce. Of these 19,488 are wage and salary earners and that suggests that there are about 56,882 economically active members in the informal economy.

The 2001 census found that 76 percent of the workforce is employed in rural areas which have been defined by the Statistics Department as being the divisions outside Port Vila and Santo Urban Areas. Best estimates from the 2001 census suggests that about 70 percent of the workforce is males and 30 percent females and that the two exclusively rural occupations for non wage earners shown above are mostly males.

The home workers are substantially female and the self-employed workers are likely to have a higher proportion of males. For the transport industry workers most of the participants are male.

By using a rounded total of 55,000 for the informal economy a 0.5 per cent sample for survey would be 275.

In the absence of any formal classification of the informal economy a reasonable occupation based classification is listed below.

Exclusively Rural

1. Farm and Farm Related Activities

comprising subsistence farmers, small landholders in specialised or mixed farming, landless farm workers and unpaid family members.

2. Fishing¹⁹, where this is the major income source. It is recognised that in some households income and subsistence will be derived by a combination of fishing and farming.

Mostly Rural, some Urban

3. Home Workers including craft workers, mat weaving, garment making and housemaids.

4. Self Employed Workers including micro-entrepreneurs, small traders and miscellaneous enterprises.

Exclusively Urban

5. Transport Industry Workers including taxi drivers, small repairers and other small transport passenger and freight services.

¹⁹This applies to coastal local fishing and not to commercial operators who are clearly in the formal economy

The 1999 census found that 78.5 per cent of the population reside in rural areas which has been defined by the Statistics Department as being fairly evenly distributed outside the Port Vila Urban Area. Best estimates from the 1999 census suggests that about 55 per cent of the workforce are male and 45 per cent female and that the informal economy represents about 82 per cent of the active labour force (2000 Labour market survey). About 85.4 per cent of males aged 15-64 are considered economically active compared to only 70.9 per cent of females. The two exclusively rural occupations for non wage earners shown above are mostly males.

The home workers are substantially female and the self-employed workers are likely to have a higher proportion of males. For the transport industry most of the workers are male.

Based on these assumptions and in the absence of any more detailed information about the distribution of occupations in the informal economy, the following distribution of the sample was made:

Table 5.3 Approximate distribution of occupations

Informal Occupation	Proportional Estimates		Sample Ratio	Sample S=300
	Rural	Urban		
Farm and Farm Related Activities	35%		35%	105
Fishing	25%		25%	75
Home workers	10%	10%	20%	60
Self Employed	5%	10%	15%	45
Transport Industry		5%	5%	15
Total	75%	25%	100%	300

5.1.4 Survey locations

The population distribution throughout the provinces as per the 1999 census is shown below.

- **Torba**, (Torres and Banks islands), population 7,757, (4.15 per cent)
- **Sanma**, (Espirito Santo and Malo islands), population 36,084, (19.33 per cent)
- **Penama**, (Pentecost, Ambae and Maewo islands), population 26,646, (14.27 per cent)
- **Malampa**, (Malakula, Ambryn and Paaama islands), population 32,705, (17.52 per cent)

- **Shefa**, (Efate, Epi, Emae and shepherds islands), population 54,439, (29.16 per cent) and
- **Tafea**, (Erromango, Aniwa, Tanna, Futuna & Anatom islands), population 29,047 (15.56 per cent).
- **Vanuatu**, population 186,678.

Table 5.4 Sample distribution by location

Informal Occupation	Location			
	Shefa	Sanma	Tafea	Total
Farm and Farm Related Activities	50	30	25	105
Fishing	30	25	20	75
Home workers	35	15	10	60
Self Employed	35	10		45
Transport Industry	10	5		15
Total	160	85	55	300

Guide to distribution of surveys by locality can be flexible depending upon the availability of the occupation types. These locations should be selected at random based on varying population densities and in the vicinity of major service centres to obtain survey staff.

5.2 Informal economy survey findings

5.2.1 Aims and methodology

The scope of the survey was to obtain information from selected workers in the urban informal economy about personal details, education, employment, income social security needs, priorities and their capacity and desire to contribute to a social security scheme. During the survey, the interviewers provided informants with basic information about social security programmes available in Vanuatu, as it was anticipated that many people would have limited understanding of the concept. The choice of employment category and location was based on proximity to major cities, earnings capacity, high social risk and potential to create groups of workers with similar work and life interests. The potential to implement a future pilot scheme and a subsequent social security program was also a key consideration.

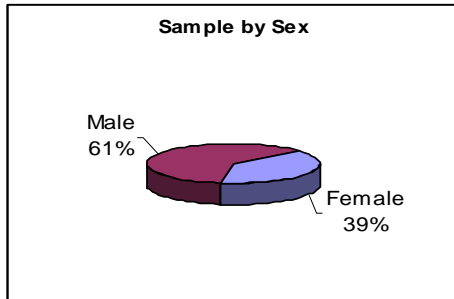
5.2.2 Key survey results

The questionnaires of the survey consist of four parts; personal details, employment, income and social security needs, priorities and desire to

contribute. A summary of the key findings is presented below.

(i) Personal details

The balance between sexes in the survey was biased towards males because of the type of industries chosen. Many of the traditional

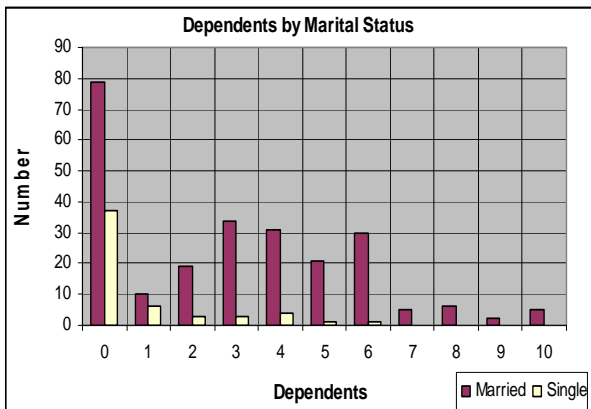


farmers, fishermen and transport workers were males. The predominant work areas for females in unpaid family care, family business and home workers were less accessible to the surveyors. The sample correlates reasonably closely to the 2000 Labour market survey where 55 per cent of the active workforce was males and 45 percent females.

Age Group	Gender	Count
< 15	Male	1
	Female	0
15 - 59	Not stated	2
	Female	105
	Male	162
>60	Female	10
	Male	19
TOTAL		299

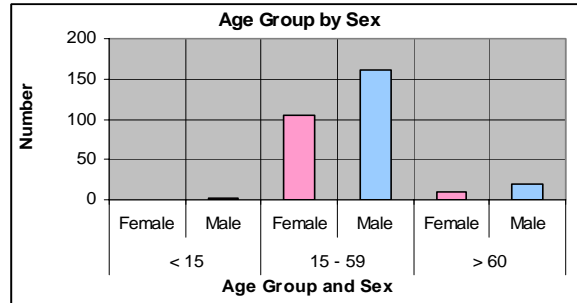
(ii) Age grouping

As expected the bulk of the sample identified people in the working age group aged between 15 and 60 years. The proportion of males reflected the overall gender ratio in the sample including in the over 60 years age group.



(iii) Dependents

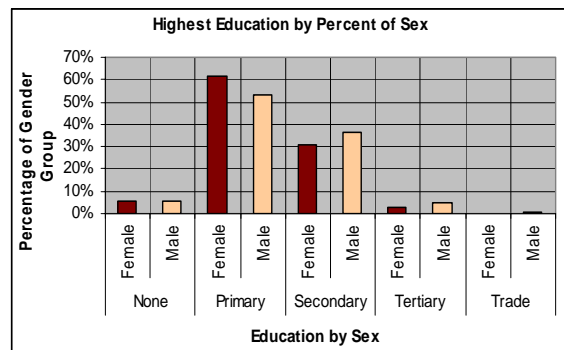
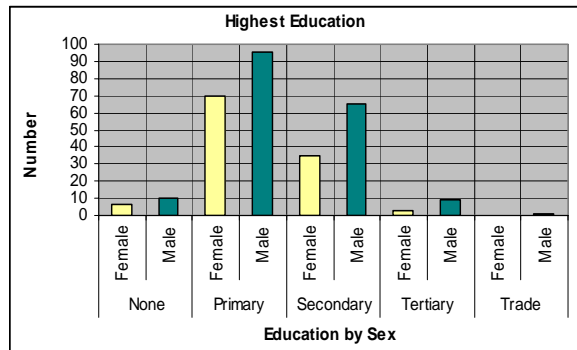
The number of dependents as shown in the following diagram follows a natural distribution curve with the mode around four dependents per family although the weighted average would be closer to 5 dependents per family. This compares favourably with the 1999 Population Census



where the average family size was 5.1. The number of single parents was 19 in the sample of 300, which represents about 6.5 per cent of the sample. Given the bias of the sample to males this is not likely to represent the true situation of single parent families and a national benchmark was not available from existing statistics.

(iv) Education

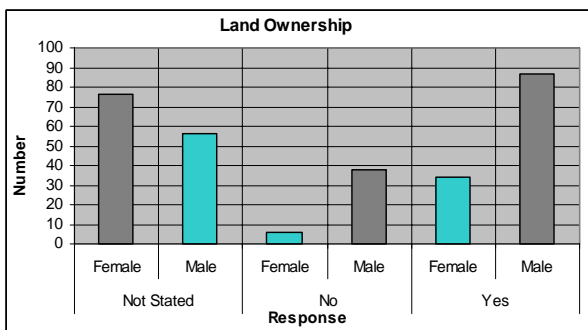
The highest education attainment of the workers in the sample is shown in the following charts. In terms of absolute numbers in the sample males represent the highest numbers in all categories of education. However when considered as a



percentage of each sex in the second chart it can be seen that a higher percentage of females have only achieved primary education, and they also have less representation in secondary achievement: however females have a higher percentage of tertiary achievement than males. These findings reflect the situation in Vanuatu: however it is acknowledged that imbalance in education for females has been addressed and the national data shows increasing numbers of females completing higher education. These data reflect the relatively low literacy rate in Vanuatu and the 1999 population census identified the literary rate for Vanuatu as 74 percent (90% in urban areas and 69% in rural areas). Low literacy rates imply that operating within a social security program and maintaining claim requirements could pose any problems for the average adult Ni-Vanuatu.

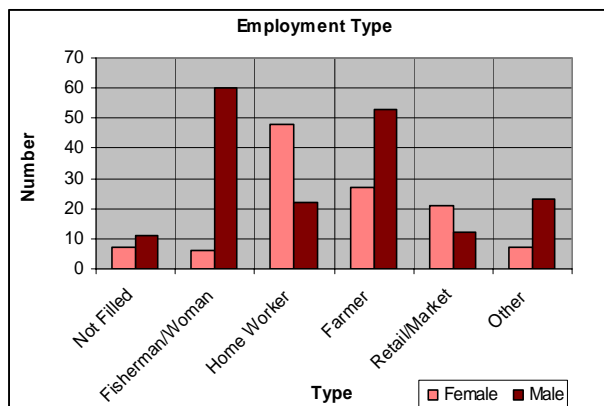
(v) **Land ownership**

Land ownership posed some problems for surveyors and respondents alike and given that much of the sampling occurred in traditional villages and towns the ownership of land is not always clear. One of the benefits of traditional systems is access and rights to land as part of an extended family group. However many people in the sample saw free-hold as ownership which has been identified as the most likely cause of the high “no response” count for this question. The yes response demonstrates that land ownership is traditionally identified with males.

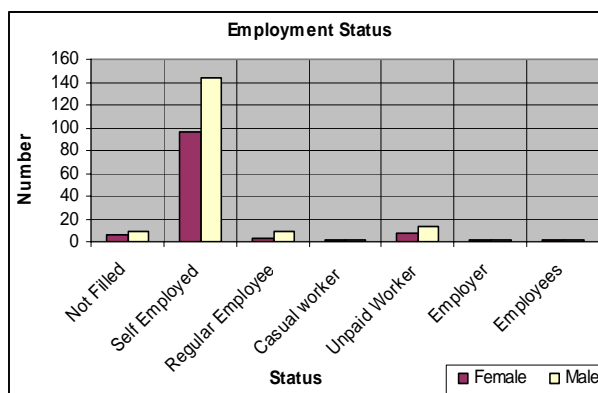


(vi) **Employment**

The employment status of the sample showed is dominated by self employment with some unpaid workers. This reflects the traditional rural nature of the sample where families share the workload. The last two columns represent employers and the number of employees and it is clear that people didn't equate their status as employers or employees.



The employment types of the respondents in the sample reflect the nature of the rural areas in Vanuatu where fishermen, farmers and home workers together make up about 72 per cent of the occupations in the sample. The other category is a significant proportion of the sample and is closer to gender equality than any of the other categories.

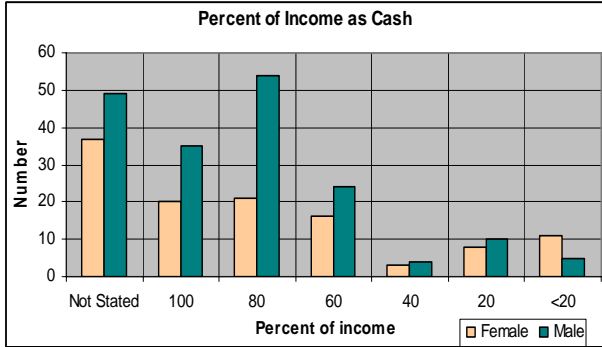


(vii) **Income Patterns**

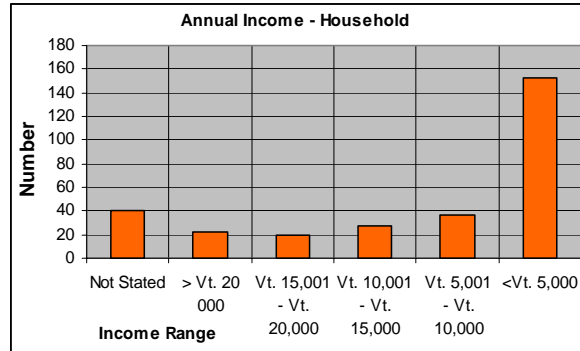
This question that asked respondents to estimate the percentage of their income that is cash was expected to be very difficult for informal rural workers, however more than two thirds of the sample were able to respond. The results show



that 57 per cent of the sample received more than 60 per cent of their income as cash. This would tend to magnify the impact of contributions that might be made as part of a savings or insurance program although not significantly.

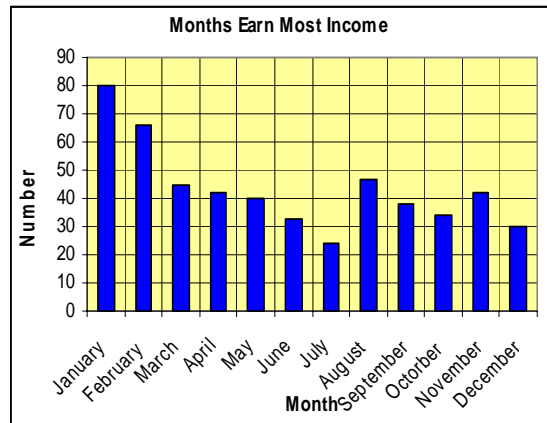


government and NGO's reflects the low level of social assistance provided in Vanuatu to the working aged population. The reliance on personal savings implies that they exist and if so



The main source of income for informal workers in the informal economy in Vanuatu is based on the sale of produce - typically copra, fish, fruit, vegetables and handicrafts. The results of this survey suggest that almost all produce is sold in markets or by direct sale with almost no sale through cooperatives. The cooperatives can provide an avenue for centralised contribution collection at point of sale for micro schemes that can simplify administration. The alternatives are group building and maintenance which in most countries has proven to be an intensive and costly exercise.

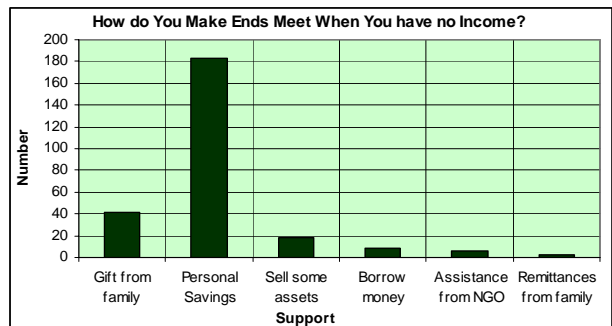
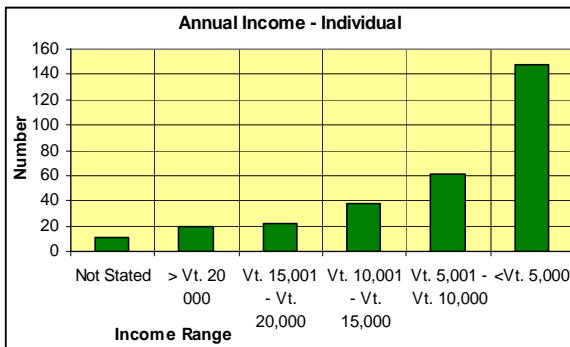
would confirm that informal economy workers do realise the importance of savings.

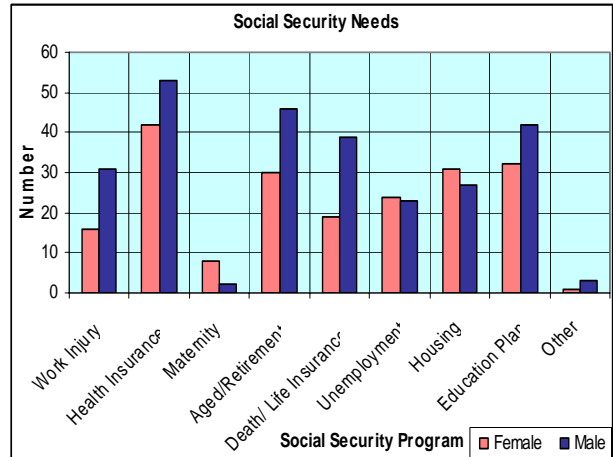
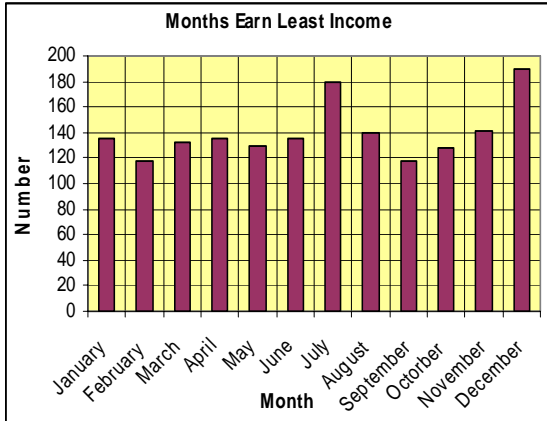


(viii) Individual and Household Income

Respondents were also asked how they made ends meet when they had little or no income and the majority identified personal savings and gifts from family. The findings from this sample suggest that remittances do not play a major role in Vanuatu unlike the significant international and local transfers that occur in Samoa, Fiji and to a lesser extent in Kiribati. The low response to assistance from

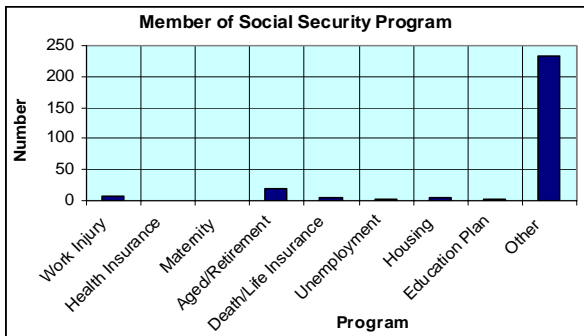
The earnings patterns of respondents were considered to identify the degree of fluctuation, which may have a bearing on any potential voluntary schemes. Erratic income or large fluctuations would place considerable pressures on regular contribution collection. However this may be moderated by the methods of receipt of income and the seasonal earnings may be paid in lump sums although this could not be determined in this indicative survey.





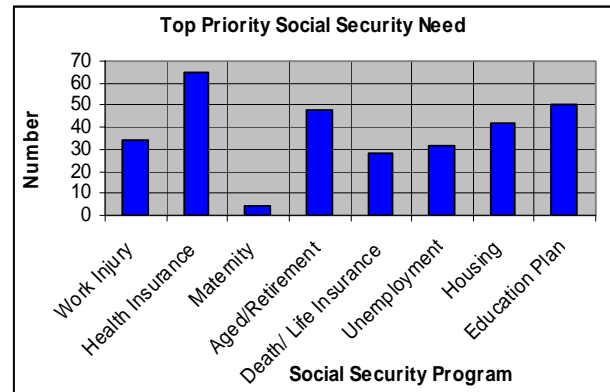
(ix) **Social Security Needs and Priorities**

In this series of questions respondents were asked about existing membership in social security programs. It must be stressed that the questions were phrased in colloquial language and in simple terms that described the program by its effects and not by title. The common social security program title on the charts is the translation. The results confirms the absence of any formal social security programs in the informal economy but the almost universal response of “other” suggests that people see the traditional systems as a social security scheme. A later question in relation to membership of church groups produced a very low result.



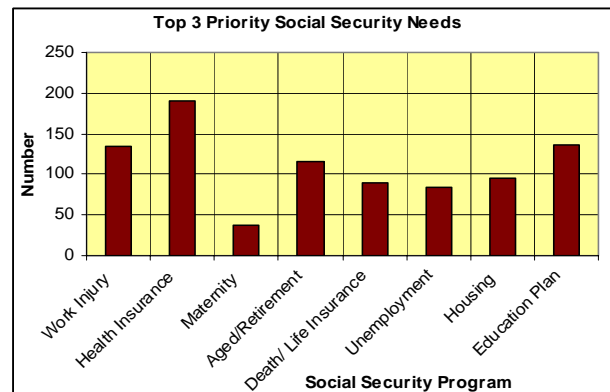
Respondents were asked to identify their social security needs in the same colloquial language for previous social security questions. In this case multiple needs were accepted and from a sample of 300 people 473 needs were identified. It is interesting to note that health insurance was easily the most common need by males and females and males also identified aged/retirement programs as the second most common need.

Respondents were then asked to nominate these needs in priority order and the following charts show the highest priority needs. This chart shows that health insurance is the most popular with retirement and education also rated highly. The low response to death/life insurance may be reflected in the age groups i.e. working age and younger people. The low response to maternity programs may be reflected in the high number of



single or married couples without children.

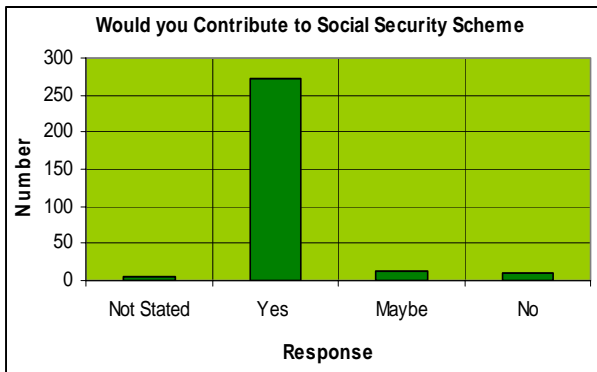
By grouping the top 3 priority needs identified by the respondents the priorities are somewhat moderated but health insurance remains the most



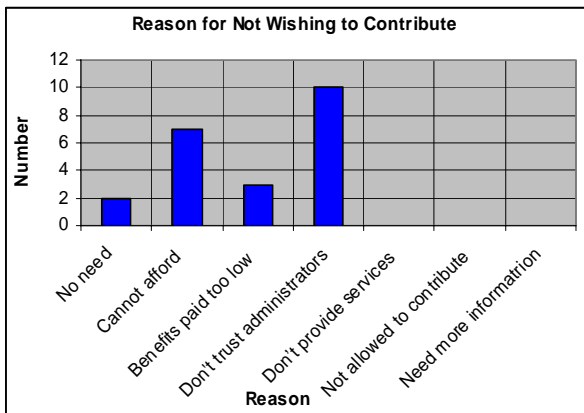
critical need. Three programs work injury, retirement, and education have similar levels of priority. Maternity programs were the lowest priority, although given that females represented only about one third of the sample and the number of single and couples without dependents, this rating may be skewed.

(x) Social Security Contribution

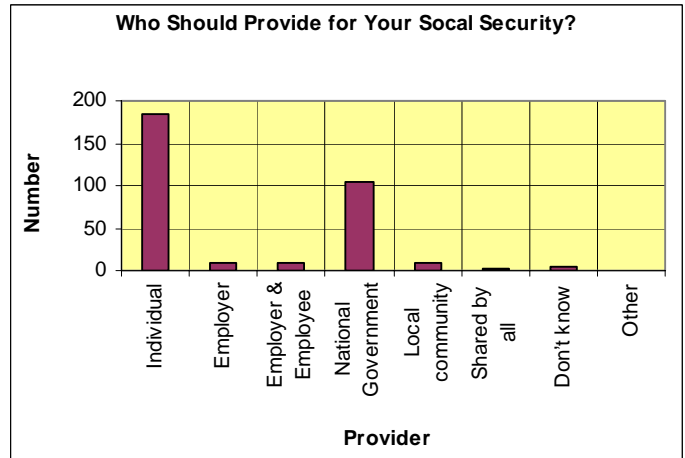
The response to the question about willingness to contribute to social security programs produced a surprising result of 90 per cent of respondents willing to contribute. Whilst there were no details provided on what level of contribution was required or what benefits could be provided for different contribution levels it is a positive point from which to explore the options for contributory social security schemes.



The reasons for not wishing to contribute represent only a small part of the sample and the largest response represented only 10 respondents. This response “don’t trust administrators” may be a reflection of the financial crisis in the provident fund in the late 1990’s. It is obvious from the income levels that many people could not afford to contribute which was the second highest response, although less than half responded



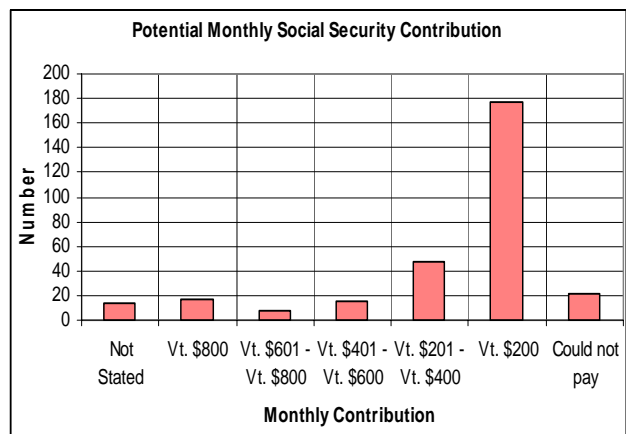
because this question was only asked of people who answered “No” or “Maybe” on the previous question (willingness to contribute).



In response to who should contribute to your social security “the individual” was the most common response by over half of the respondents. This concurs with the willingness to contribute of about 90 per cent of those who participated in the survey. The various government levels drew about one third of the responses.

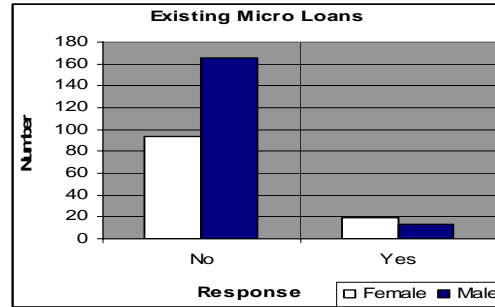
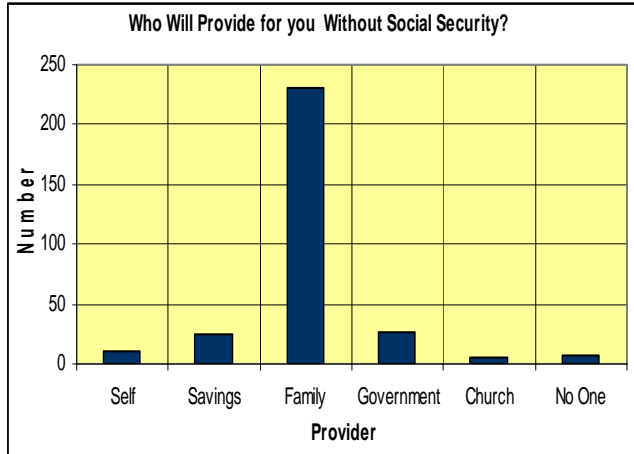
The level of contribution will ultimately determine the quality of benefits provided in any voluntary scheme. The amount volunteered by those surveyed is fairly modest and on their own would not provide for substantial benefits. Only about 30 per cent of those surveyed could contribute more than VUV 200 per month and about 60 per cent could only contribute less than VUV 200 per month.

The responses to how people will be supported



without social security are somewhat

inconclusive in that people believe they needed to be self-supporting. This is probably a statement of reality and what happens now. Given the situation with regard to traditional systems and previous responses the very high response from family support was expected.

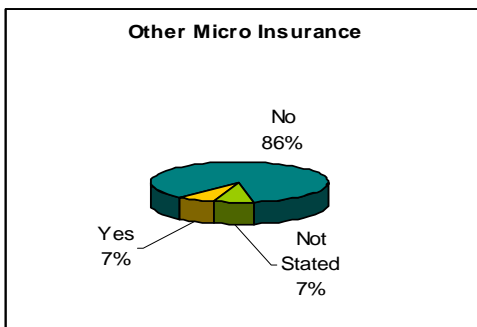
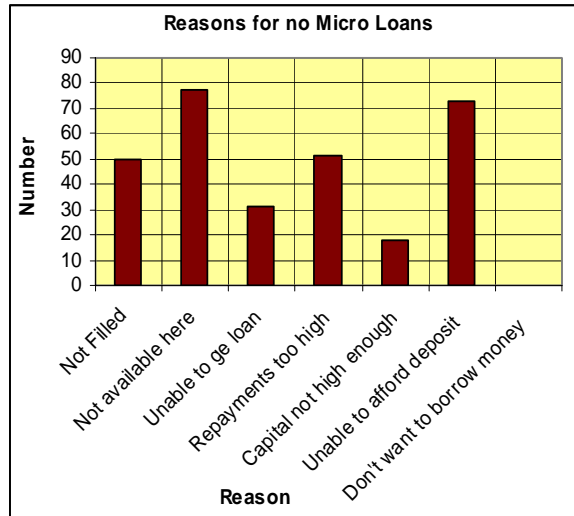
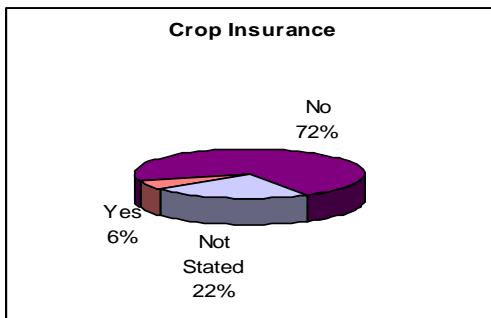


more than 88 per cent of respondents had no micro loans and the main reason for this was that micro loans were not available in their location.

Where respondents had micro loans they were fairly evenly apportioned between males and females in numbers but on the gender ratios females would have a higher proportion of loans. This may be partly due to the pro active nature of some NGOs including VANWODS in supporting small business loans to women. Compared to other Pacific countries an 11 per cent acceptance rate for micro loans is relatively high. This has been achieved despite the closure of the Development bank to new loans.

(xi) Insurance and Micro Schemes

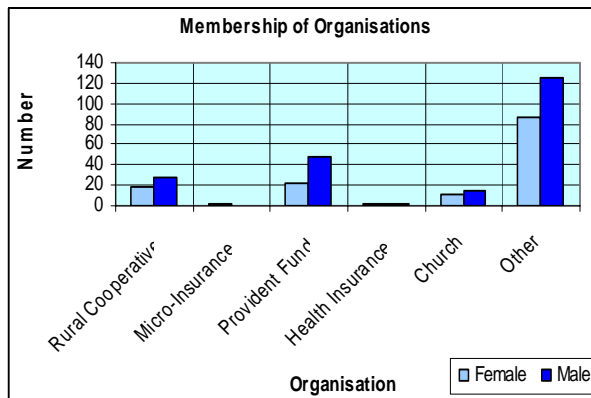
The two forms of insurance represented in these charts reflect the general low acceptance of insurance in Vanuatu. However whilst not part of this survey life insurance endowment policies are reported to be popular. However micro-insurance across the country is probably as low as indicated in the chart.



Membership of organisations can be a useful way of identifying established groups with common interests that may be able to form the nucleus of micro loans or insurance schemes. Whilst rural cooperatives have the highest membership in the survey sample it is interesting to note that almost no one in the survey sold their produce through cooperatives. The responses for "Other" were very high representing almost the entire sample. The reason for this is not clear. It is also interesting to note membership in the provident fund but it is unclear whether this is from

In relation to micro-loans the survey found that

previous employment or from voluntary membership.



5.3 Identification of priority needs and contributory capacity

It is evident from the initial results of the surveys of the informal economy workers that there is a high need for some form of social protection. The results confirm that health insurance is one of the highest priority whereas work injury and age benefits were also high priorities in one survey but old-age benefits and education loans were highest in other surveys. Whilst there is a demonstrated need for old-age benefits it seems that the premiums would be unaffordable to most informal economy workers unless there was some form of subsidy.

The social security needs of those in the informal economy differ according to their social and family status (women, children, youths, the elderly), the degree of hazard in the particular occupation (e.g. small farmers, fishermen, drivers of mini buses), the work setting (at home, on the street, in a sweat shop), the milieu (communities more than establishments), and their ability to make regular contributions to the insurance fund.

In trying to develop appropriate mechanisms to cover the risks borne by workers in the informal economy, it is important to understand the range and types of risks that are present and how they may be prioritized. The strategy on how the informal economy workers may adapt to manage these risks must be evaluated. This would allow benefit packages and delivery systems to be designed that are fully responsive to the needs of workers in the informal economy.

In the case of the Vanuatu survey, the initial findings suggest that there will be very limited capacity for rural and urban informal economy workers to afford about VUV. 30.00 per month for the model provident fund contributions that are contributed by individual workers (VUV 60 per month if the employer contribution is included); in addition to premiums for other programs. Whereas formal employment sector workers and employers contribute 5 per cent of gross salary each for the provident fund contribution, it would be difficult for workers in the informal economy without an employee-employer relationship to contribute the average amount without any form of cost sharing or subsidy. This is demonstrated in the survey where about 25.7 percent of respondents indicated they could not make any contributions, 45.7 percent could pay up to VUV 10 per month and about 26 percent could pay more than VUV 10.00 per month.

However given the lower cost of living in the rural areas and the reduced capacity of informal economy workers to make voluntary contributions, it may be possible to develop micro insurance schemes that can cover the proportionately lower costs with a micro based scheme. The most positive findings from the survey suggest that people make savings, are prepared to contribute to their social security scheme, and are aware of their needs. This combination offers promise for micro schemes.

5.4 Vanuatu formal employment sector survey

5.4.1 Background

The aim of the sample survey of workers in the formal employment sector was to obtain some indicative parameters about the workers and their priority social security needs, who provides or will provide for these basic social security needs, gaps in coverage and their potential to contribute to voluntary schemes. The survey also recorded some of the demographic and other details about the workers including their income patterns, work category, insurance and micro finance and membership of organisations.

5.4.2 Formal employment sector survey

The table below shows the formal employment sector characteristics and the table also highlights the difference in the 2000 Labour Market survey

(LMS) and the 1999 census. Whilst the 1999 population census identified about 70 per cent of the economically active people as being engaged in subsistence activities, the LMS analysis has suggested that this influences the formal employment sector by:

- Keeping wages and salaries low by the large pool of informal employment sector workers;
- Recruitment of low or unskilled staff is not a problem for formal employment sector businesses; and
- Low household incomes and low rates of pay in all sectors serves as a limitation on the size and capacity of the domestic economy and on local businesses.

Table 5.5 Formal sector employment and salaries

2000 Labour Market Survey				.
Male	Female	Total	Median monthly Salary ²⁰	1999 Pop'n census excl. subsistence agric
1,035	280	1,315	101,930	842
2,157	1,375	3,532	53,686	4,961
693	1,060	1,753	44,418	1,739
1,437	1,146	2,583	48,712	4,186
424	36	460	26,260	1,881
1,418	77	1,495	37,340	3,486
813	52	865	30,324	1,770
1,611	658	2,269	23,833	3,486
9,588	4,684	14,272	40,879	22,351

Source: Vanuatu 2000 Labour Market Survey and 1999 population Census

The employment patterns in the formal economy are shown in Table 6 below and in terms of employment the government is the largest employer with 31.4 per cent of employees. However the second and third largest employers are retail and wholesale (17.3 per cent) and hotels and restaurants (11.4 per cent) and these predominantly reflect the importance of the tourist industry to Vanuatu. If the other services are included as a reflection of tourism then over 30 per cent of employment is focused on the tourist industry.

If the employment categories are condensed into the three following broad categories:

- Primary industries (agriculture, forestry, fishing and mining);

- Production industries (manufacturing, utilities and construction); and
- Service industries (wholesale, retail, hotels, restaurants, finance, insurance and other services).

Then it can be shown that service industries represent 80 per cent of the businesses by number and 79 per cent by employment.

Table 5.6 Businesses and employment

Industry	Businesses		Employment	
	No.	% of total	No.	% of total
Agriculture, forestry fishing and mining	53	5.3%	748	5.2%
Manufacturing	75	7.5%	1,273	8.9%
Electricity and water	2	0.2%	156	1.1%
Construction	68	6.8%	838	5.9%
Retail and wholesale trade	333	33.2%	2,466	17.3
Hotels and restaurants	95	9.4%	1,631	11.4
Transport and communications	63	6.3%	1,027	7.2
Finance and insurance	37	3.7%	455	3.2
Other business services	129	12.8%	52	3.7
Government	60	6.0%	4,475	31.4
Other services	89	8.8%	671	4.7
TOTAL	1,004	100	14,272	100

Source: Vanuatu LMS 2000, Report

The analysis shows that the 2000 LMS identified 14,272 formal employment sector, of which, based on the ratio of public sector to private sector workers of 31.4 per cent that was obtained in the LMS of 2000, when applied to the 2003 active VNPF membership of 17,222 (See table 5.7 below) then:

1. A 1.0 percent sample of the formal employment sector would be 172.
2. This could be apportioned as follows:
 - 54 to the public sector, and
 - 118 to the private sector

TOTAL = 172 forms

Given the nature of the formal sector employment, the bulk of this would be in the major urban areas. The 1999 census identified that 78.5 per cent of the population lived in rural areas and this implies that most of the formal employment is centred on Port Vila.

²⁰ Ni-Vanuatu only

Table 5.7 VMPF fund growth

Year	Annual Contribution (Vt. '000)	Total Members' Credits (Vt. '000)	Active Contributors
1987	87,000	80,421	11,793
1988	255,289	321,658	13,655
1989	260,871	568,856	14,281
1990	307,217	867,872	15,104
1991	326,163	1,188,941	16,688
1992	378,532	1,562,795	17,502
1993	401,720	1,971,014	19,159
1994	418,027	2,398,625	20,084
1995	473,018	2,901,272	20,127
1996	470,342	3,356,021	20,237
1997	489,246	3,810,020	19,566
1998	497,214	965,116	16,163
1999	436,825	1,433,904	22,865
2000	725,986	2,114,368	26,976
2001	1,023,903	3,052,221	18,607
2002	1,084,789	3,991,006	17,297
2003	1,005,210	4,832,151	17,222

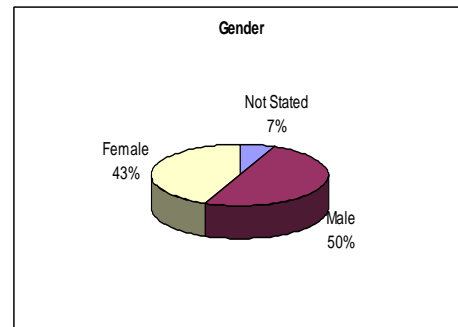
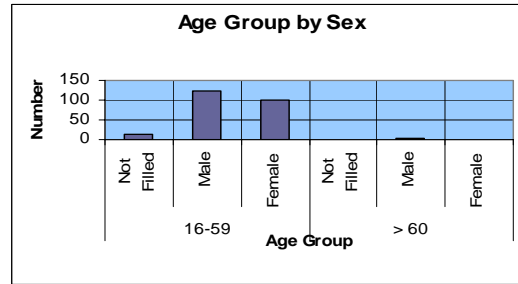
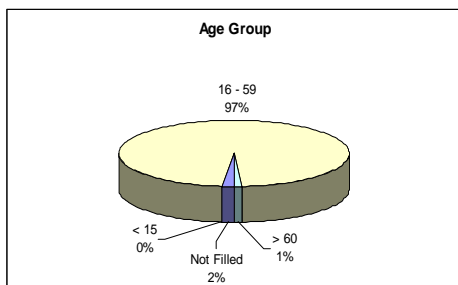
Source: VMPF, 2004

5.4.3 Key survey results

The questionnaires of the survey consist of four parts; personal details, employment, income and social security needs, priorities and the desire to contribute. A summary of the key findings is presented below.

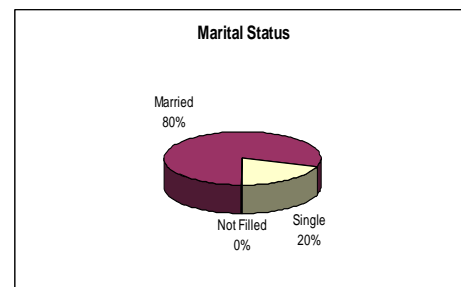
(i) Personal details

The total sample of 246 was taken from the age groups between 15 and 60 years. The sample was biased towards females where they represented 43 per cent of the sample which is considerably higher than for the expectation of around 38 – 40 per cent. Based on Table 3 the formal employment sector in 2000 comprised 62 per cent males and 38 per cent females. However in a random sample where data collection forms were self completed, such an error rate is not unreasonable.



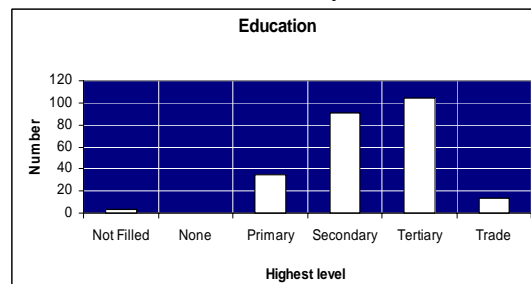
(ii) Marital status

The sample indicated that 80 per cent of respondents were married and that 20 per cent were single which is similar to the informal economy outcome where about 15 per cent of the sample was single.



(iii) Education

The highest education level represented by the sample was tertiary level followed by secondary level. This contrasts markedly with the informal



survey where the bulk of the respondents had only primary level education and there were some cases which had no formal education. This education level may be biased by the high proportion of public sector employees in Vanuatu and the education levels may reflect the public service entrance minimum standards.

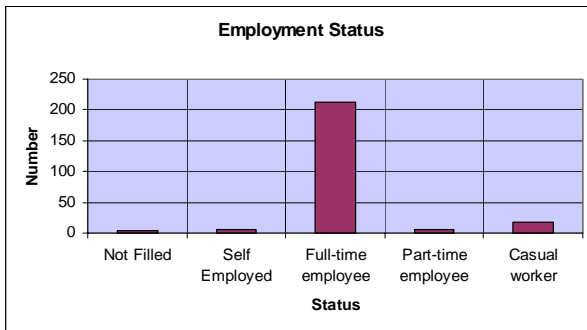
The sample identified 61 per cent of respondents as being employed by the public sector and in the absence of accurate data this appears to be slightly higher than expected and based on the labour market survey in 2000 and 1999 population census, 31.4 per cent of formal workers were employed by the government. The deviation could be explained by the better access to public sector institutions and diligence in voluntary surveys.

(iv) Employment status

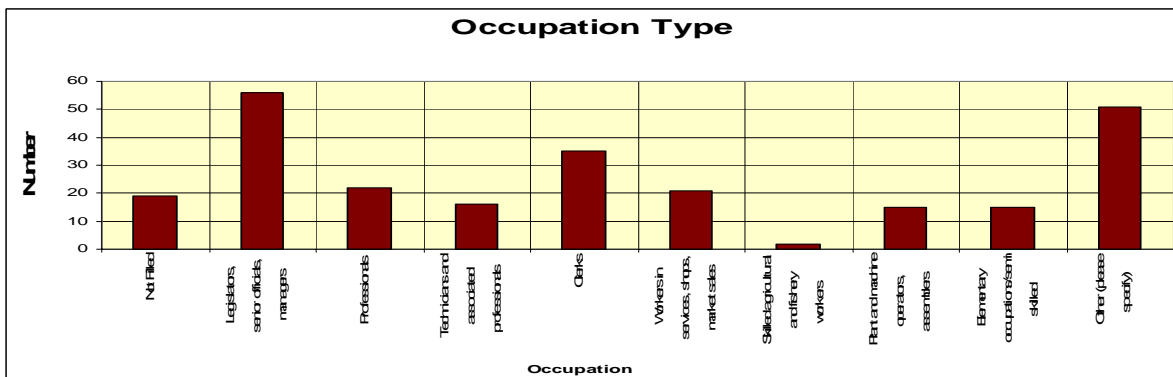
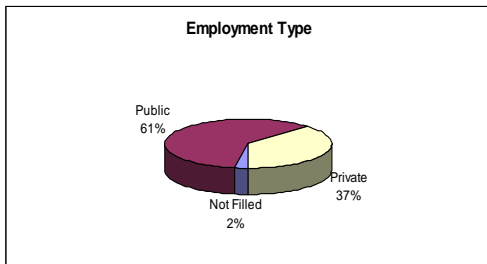
The employment status of the sample was almost completely composed of full-time employees which is expected for the formal employment sector and validates one of the key definitions and characteristics of formal employment sector employment

(v) Occupation type

The employment categories require some correlation with the range of ILO occupational classifications which were condensed for the purposes of this indicative survey. If the service related occupations are grouped from the 2000 labour market surveys then about 35 per cent of the formal employment sector workers are engaged in clerical or professional activities. This survey produced a bias that shows almost 60 per cent of workers engaged in these occupations. However, since 2000 changes in the workforce, trade, agricultural production and manufacturing have suffered some decline and there has been an increase in the service sector, particularly in tourism. There may not be as much variation in the survey sample as initially indicated.

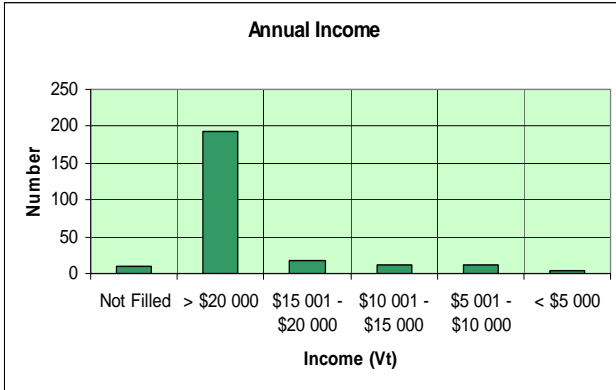


(v) Employment type



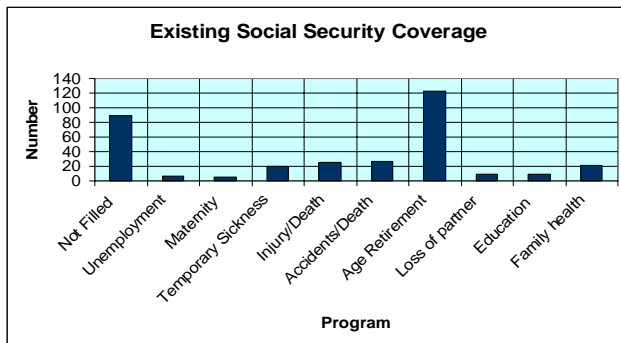
(vii) Annual income

The design of the data collection form contributed to the bunching of incomes in the upper range that is greater than VUV 30,000 where about 80 per cent of the responses lie.



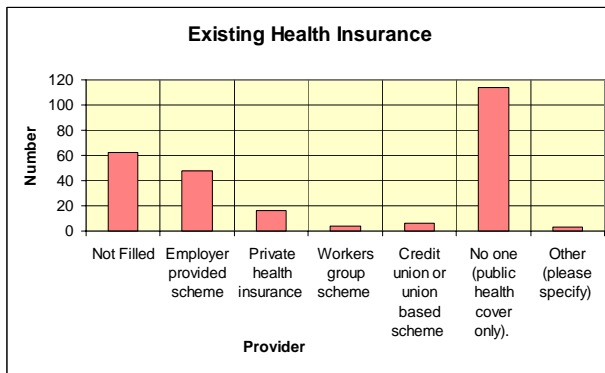
(viii) Existing social security coverage

The coverage provided for age retirement by VNPf is evident in the responses and it is presumed that the small responses for other benefits may be from employer or industry sponsored schemes.

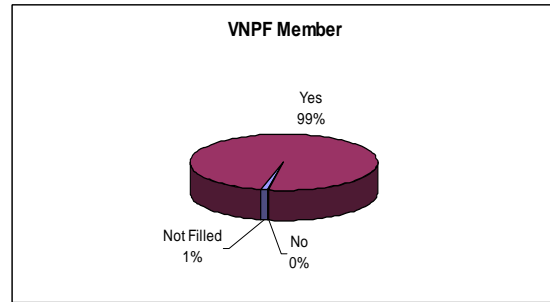


(ix) Existing health insurance

About 25 per cent of respondents indicated that they had some form of cover in addition to the standard universal cover provided by government. The employer sponsored schemes were the largest of these with about 20 percent of



the sample.

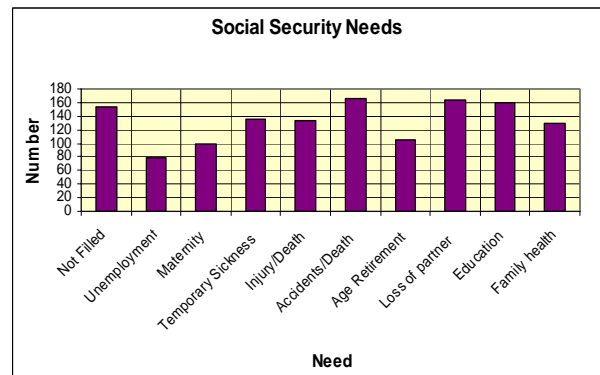


(x) VNPf membership

As expected the survey respondents were almost all provident fund members which suggests that compliance is relatively high and that the survey targeted the formal employment sector workers

(xi) Social security needs

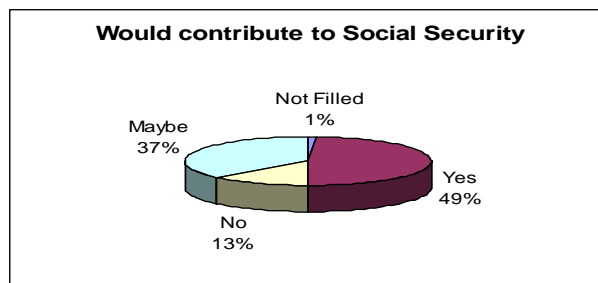
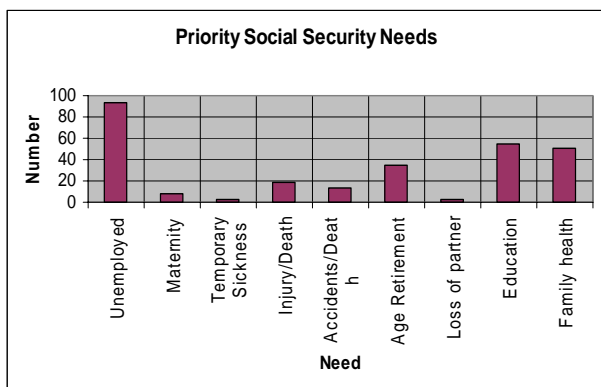
The respondents were asked to select as many needs as they considered essential and this explains why the total number of responses was more than four times the number in the sample as



respondents made more than one choice. The responses from this question produced age/retirement, loss of partner, education and unemployment protection as almost equal in terms of needs. This is perhaps understandable but not altogether predictable; however, in a society where there is loss of income due to unemployment and in the absence of high rates of general insurance, the result could see a dramatic change to lifestyles.

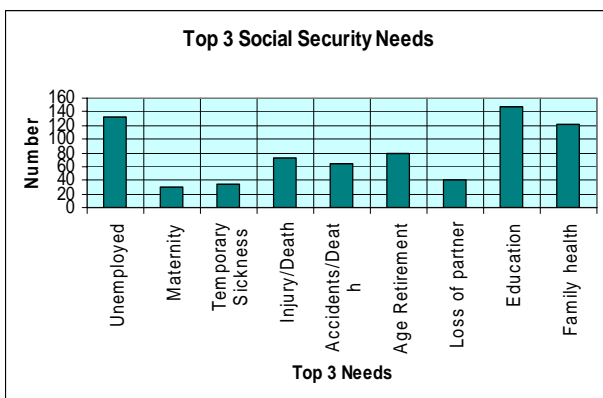
(xii) Top priority social security need

Respondents were asked to nominate their social security needs in priority order from one to eight. This outcome represents the number of instances where the need was identified as top priority. Unemployment protection was clearly the top priority followed by education and health insurance.



(xiii) Top 3 Priority Needs

Given that it is very difficult to choose one priority need when only about three of the nine contingencies are covered in the formal employment sector, the top three responses were grouped to perhaps suggest a more indicative view of the needs. In this survey this re-inforced education, unemployment and health protection as clear priorities.



(xiv) Who should contribute to social security

The responses to this question tended to reflect the status quo where for formal employment sector employees the employer and individuals currently share responsibility for the existing programs. However the governments also featured significantly which is status quo for health care but may be interpreted a little more widely if additional programs are included in the consideration.

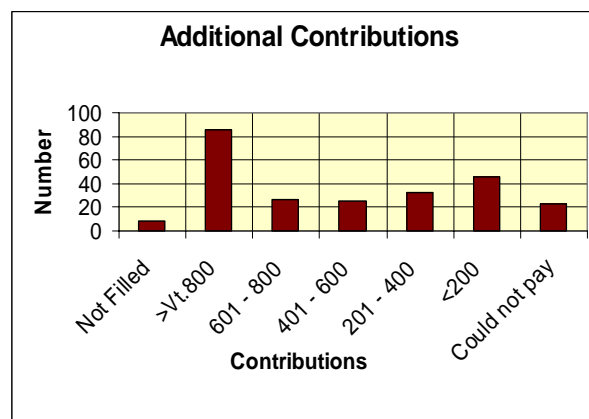
(xv) Voluntary contributor to a potential scheme

Responses to this question were very positive with around 86 per cent of respondents answering

yes or maybe. Whilst it is recognized that this is very much a loaded question as people would not be able to commit fully until the product was available, it does serve as an indicator to people’s understanding that contributions may be necessary to obtain better services.

(xvi) Potential Monthly Contributions

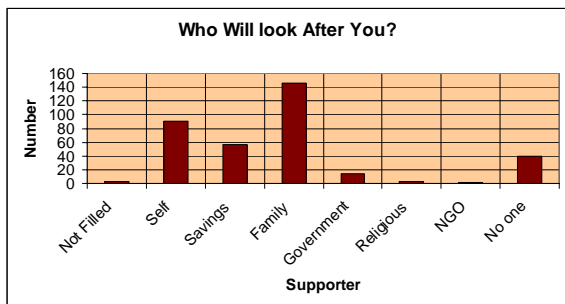
These responses suggest that about 25 per cent of people might contribute VUV > 800 per month (about USD 8) and about 15 per cent might contribute VUV 600 – 800. More significantly only about 10 per cent either did not respond or could not pay. Whilst these figures may not be significant they indicate that in the absence of any proposal or program people would offer a value on contributions suggests that careful design of a tailored program may be able to entice people to contribute meaningful amounts



that could produce useable benefits

(xvii) Support without social security

Most respondents confirmed the strength of the extended family and cultural ties in Vanuatu with more than half expecting that the family will support them. Almost one third considered that they will be responsible for their own support with about 25 per cent relying on savings.



5.5 Comparison of formal and Informal survey findings

The table below provides a snapshot of some of the common elements from both surveys. It should be noted that the survey forms contained a different set of questions for each of the groups surveyed and some of the issues relating to land ownership, sale of goods etc were not relevant to the formal employment sector workers. The purpose of this table is to compare and contrast the different and similar needs of the two employment sectors.

Table 5.8 Comparison between informal and formal surveys

Survey Elements	Formal Employment Sector (%)	Informal Economy (%)
Sample Size	246	300
Males	50%	61%
Female	43%	39%
Education		
None	-	5%
Primary	14%	56%
Secondary	37%	34%
Tertiary	42%	4%
Trades	5%	-
Employment Status		
Full time	87%	6%
Self Employed	4%	86%
Unpaid worker	2%	7%
Casual worker	7%	1%
Employment type		
Public Sector	37%	-
Private Sector	61%	100
Annual Income		
0 – 5,000	1%	51%
5,001 – 10,000	5%	21%
10,001 – 15,000	5%	13%
15,001 – 20,000	8%	8%
Over 20,000	81%	7%
Top 3 Social Security Needs		
Unemployment	18%	10%
Maternity	4%	4%
Workplace Injury/Death	10%	15%
Death/Life Insurance	9%	10%
Age Retirement	11%	13%
Loss of Partner	5%	-

Survey Elements	Formal Employment Sector (%)	Informal Economy (%)
Education	21%	15%
Family Health Insurance	22%	22%
Housing	-	11%
Would you contribute to social security		
Yes	49%	92%
No	14%	3%
Maybe	37%	4%
Who should contribute to Social Security		
Individual	20%	57%
Employer	34%	3%
National Government	32%	32%
Local government	4%	3%
Shared by All	7%	3%
Don't Know	4%	5%
Potential Monthly Contributions		
Could not pay	10%	7%
Less than \$5	19%	62%
\$6 - \$10	13%	17%
\$11 – \$20	11%	5%
\$21 - \$30	11%	3%
More than \$30	36%	6%

The following observations can be made on the key differences between the findings from the formal employment sector survey and the informal economy survey:

- Education levels are much higher in the formal employment sector and the significantly lower standard in the informal economy has been identified by the informal economy respondents in that they have rated education support as one of their highest priorities;
- Informal employment sector respondents rated their loss of income as a much lower risk relative to other life cycle events than predominantly urban workers and the priority need for unemployment insurances reflected this difference being rated the highest need among formal employment sector workers;
- The informal economy survey showed for older people, more were married and the number of children per family were all higher than in the formal employment sector survey. Whilst some of this may be explained by the random nature of the survey the findings generally fit trends in the national statistics;
- The employment status in the informal economy survey indicated that most workers in the informal economy are self employed

whereas the formal employment sector survey showed that the majority of workers were full time regular employees;

- Incomes found in the informal economy survey were generally lower than those in the formal employment sector survey both in individual incomes and family incomes, a trend supported in the national statistics;
- Existing social security coverage was almost non-existent in the informal economy with the coverage provided by the provident fund reflecting the responses in the formal employment sector survey. Both surveys reflected the individual and family nature of existing social protection support;
- Social security needs were similar in that both surveys showed health care as the number one priority of the informal workers and unemployment protection for formal employment sector workers. In both surveys age/retirement and education rated highly;
- A higher proportion of informal economy workers declared that they could not pay any voluntary social insurance contributions than in the formal employment sector survey and those that indicated they were prepared to contribute could only contribute much lower amounts than in the formal employment sector survey;
- Most formal employment sector workers surveyed indicated that both the individual and the employer should contribute to social insurance whereas the informal economy survey strongly supported the government as the prime contributor followed by the individual. This may reflect the low incidence of regular employment in the rural survey; and

- One outcome of these surveys is that people both in the formal employment sector and the informal economy in Vanuatu have an interest in social security and would be prepared to contribute to a scheme that suits their needs and priorities. This finding provides a basis for a possible policy design in the form of pilot projects although any future proposed policy design should be tested with a more detailed and targeted survey.

5.6 Concluding remarks

There is a large unmet need for social security in the informal economy in Vanuatu. The extension of coverage to the urban and rural informal economy will require the efforts to (i) identify the social security needs for different groups of workers, (ii) determine their social risks, (iii) develop programs based on risks, income and needs, (iv) identify group collection and support mechanisms, (v) pooling and reinsurance to promote sustainability, and the appropriate role for the private sector and governments at all levels.

Results of the informal economy and formal employment sector surveys have demonstrated that a carefully structured program may be able to attract sufficient contributors to make a contributory scheme viable in terms of numbers; however the dispersed nature of the contributors, the variability of their income, their capacity to pay and the administration issues suggest that solutions will not be simple to develop or to maintain. The extension of social security to the informal economy is feasible if one could develop a viable scheme that is flexible, affordable, sustainable, and well marketed and understood.

Chapter 6 Traditional Social Protection Systems in Vanuatu – Culture, Customs and Safety Nets

6.1 Executive summary

The Chapter examines the traditional systems and customs in the Pacific, in particular focusing on existing local social support systems and the characteristics that impinge on the success and sustainability of potential micro schemes in Vanuatu. This is to assist the local stakeholders and governments to ensure that key elements of traditional systems and customs are taken into consideration when undertaking feasibility studies into social security programs, during workshops, and in the development and implementation of national action plans. In addition to the specific country findings and recommendations, there were a number of broad patterns identified across the countries studied and also some broad recommendations which need consideration.

6.2 Broad patterns of findings

- The complex inter-relationship between the traditional and the modern expresses itself in virtually all aspects of Pacific community life, including the socio-political system, the economic system, systems of social security, gender relations, etc. Over the years islanders have selectively chosen aspects of both which they find most convenient and workable when dealing with issues of everyday life. For instance, in the case of Samoa, traditional *matais* (chiefs) are the only ones mandated by the constitution to become parliamentarians. In Fiji and Vanuatu institutionalized systems of chiefly leadership to complement the mainstream political system exist. Many people survive by engaging in “social dualities” such as subsistence and market economy, individual entrepreneurship and communal participation, profit accumulation and redistribution etc.
- Traditional culture and customs are not seen as belonging to the past but as living and operational phenomena which serve contemporary needs. At the same time it can be used to define identity in a fast changing and increasingly complex world.
- Dramatic changes in the Pacific since independence have re-shaped the way tradition is conceptualized, operationalized and adapted. Pacific cultures do change and these changes have been due to the adaptive nature of Pacific people to the emerging challenges of globalization and modernity. Some aspects of culture such as land rights have evolved only as far as the need dictate.
- Traditional Pacific societies are organic and integrated in the sense that no particular aspect, whether it is political leadership or socio-economic exchange, is autonomous. Instead these aspects are all intrinsically linked. For instance one’s political status depends on exchange for sustainability and legitimacy. Structure of society is linked to kinship relations and landownership is linked to status and kinship links etc. To change one means changing other aspects as well.
- The country studies show that traditional systems of social protection are closely linked to systems of political governance, socio-economic exchange, gender role, conflict resolution mechanisms etc. Traditionally, there were no institutionalised systems of social protection as such but each component of social life (exchange, governance etc.) had a role in social protection. The entire kinship system itself, referred to as *veiwekani* in Fiji or *fa’a Samoa* in Samoa or *wantok* in Vanuatu and the Solomon Islands, provides the basis or foundation of social protection which sustain individuals and groups on a daily or occasional basis.
- Traditional forms of social protection are still very much practiced today in a variety of forms as we have seen in the country studies. They play a number of important parts by subsidizing the demands of the market economy and mitigating against the impact of economic pressures on the families concerned. They also allow for circulation and reproduction of certain traditional goods which would have

otherwise disappeared. They also help to maintain social coherence at a time when families are disintegrating as a result of economic pressures. Furthermore they provide a sense of belonging and identity for people.

- Traditional forms of social protection exist in various forms such as collective reciprocity of goods and services, ceremonial exchange or even at a level of individual behavioural disposition where one is expected by custom to be generous. It can also exist at the level of cultural philosophy relating to ideals of altruism, selflessness, neighbourliness, etc. The levels of practice and philosophy reinforce each other.
- The study has found that traditional forms of social organization and norms can be successfully used to facilitate and promote micro schemes. One of the pre-requisites of the market economy is individual entrepreneurship. Many Pacific communities, because of the integrated communal life they are part of and used to, find it difficult to adapt. This has been a cause of failure in many of the income generating activities.
- In all the countries studied there have been considerable successes in the integration of traditional values such as collective participation, sharing of resources and social integration in micro schemes. The integration between modern women entrepreneurship and the traditional role of women as custodians of family welfare has been a significant factor for success. The use of the chiefly system as means of legitimization (as in Samoa) or debt repayment (as in Vanuatu) is another example. In situations where it is difficult to produce assets as collateral the use of social and cultural collateral has been seen to be appropriate and workable. Group investment based on community trust and good relations have produced positive dividends.
- It was also observed that some aspects of tradition tend to undermine the culture of savings. Some of these practices such as *fa'alavelave* in Samoa can be adjusted to make sure that the burden on the people is

not too heavy. It is possible to strike a harmonious balance between tradition and micro schemes.

6.3 Some general recommendations

- Governments in the Pacific should recognize the importance of traditional norms and practices in micro schemes. Policies relating to development and micro schemes should have specific references to this.
- Those micro schemes which have been successfully integrating the two modes must be given more support and encouragement and replicated elsewhere in other parts of the country. There should be an independent study of the reasons why this model has not worked in some cases and the mistakes identified should be rectified.
- Like in Samoa (where the government has discouraged the use of small mats for ceremonies) there should be some government guidelines (not rigid ones to allow for people to still make a choice) to ensure that certain traditional obligations are not impediments to poverty reduction.
- Because many of the micro scheme organizations operating within the countries studied work autonomously, it is important that there should be a national network set up by the government to ensure that there is a uniform national structure and process and that these organizations (who in some cases may be competing against each other) can share experiences and lessons or success and failure and learn from each other. This could be facilitated by creating a focal point which collects and disseminates detailed information about the micro schemes.
- Although the economic, cultural and political circumstances in the individual countries concerned are different, it is still possible to *import* success models to other countries. This may need re-adaptation but by and large there should be minimal problems.
- A training manual on tradition and income generation/business should be produced as a guideline for those involved in group and

collective projects. While people *live* their culture, it is important to *teach* or provide an analysis of aspects of their own culture which they have only taken for granted. Experience shows that this can be reassuring and empowering the outcomes of the projects.

- The family (nuclear or extended, depending on the circumstances) should be the primary target beneficiaries of the micro scheme projects, although the process may involve larger groups. For instance a project may involve the whole village, the ultimate beneficiaries would be the families and how they are able to sustain themselves.

6.4 Overview of the study

6.4.1 Purpose of the study

The study examines the traditional systems and customs in the Pacific, particularly focusing on the existing local social support systems and the characteristics that impinge on the success and sustainability of potential micro schemes in Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu. This is to assist the local stakeholders and international consultants to ensure that key elements of traditional systems and customs are taken into consideration when undertaking feasibility studies into social security programs, during workshops, and in the development of national action plans.

6.4.2 Methodology

The study was completed by Dr. Steven Ratuva from the School of Sociology at the University of the South Pacific and involved library and archival research, review of government and civil society documents, field visits to Kiribati, Samoa, Solomon Islands and Vanuatu and interviews with a number of individuals associated with issues of social protection, government policy-makers, civil society organization personnel, academics and other relevant stakeholders.

6.4.3 Overview of contents

The remainder of the Chapter has been organised as follows. Section 6.5 provides a comparative overview of the traditional systems in the Pacific focusing primarily on issues relating to social

protection. Unlike large-scale industrialized societies which are based on demarcated specialized activities, Pacific societies are more organic and integrated. Social protection mechanisms are not separate institutions and processes on their own but are integrated into the entire socio-political and socio-economic and socio-cultural systems.

Section 6.6 present the results of the Vanuatu country study and provides an overview of key socio-cultural aspects such as the socio-political system, economic system, land tenure, status of women. It then focuses on some significant traditional forms of social protection and then an examination of some of the ways in which aspects of traditional culture have been used to facilitate various forms of micro scheme.

Section 6.7 summarises the key findings of the study and formulates recommendations derived from the Vanuatu country study

6.5 Traditional systems and customs in the Pacific: A comparative overview

6.5.1 Socio-political structures

The socio-political systems of the five countries studied had a number of important features some of which were similar to and some of which were different from each other. On the one hand there is the hierarchical and largely hereditary Samoan *matai* system and on the other hand there are the relatively egalitarian and “achieved” status of the Melanesian societies. Fiji is somewhere in the middle where both hereditary and achieved modes of socio-political rule existed side by side during the pre-colonial era until it was re-shaped by British colonialism along the lines of the hereditary and hierarchal system. One cannot really make generalizations about the “ideal” Melanesian and Polynesian systems because there are significant variations within these societies themselves. For instance in Solomon Islands, Polynesian as well as Micronesian communities exist side by side with Melanesians, and the same could be said of Fiji. Some communities in Vanuatu and Solomon Islands have hereditary modes of traditional leadership while some have egalitarian and achievement oriented political systems. In Kiribati traditional leadership sometimes takes both the achieved and inherited systems.

The traditional socio-political systems in all the societies studied are closely integrated to the economic, social and cultural processes. In particular they are very closely linked to customary systems of social protection.

6.5.2 Land

Land remains perhaps one of the most important sources of social protection in all Pacific societies. Most of the land in the countries studied is customary and communally owned. The socio-cultural systems are integrated to land in a social and spiritual sense. Thus land is inalienable from social life and vice-versa. This ensures that theoretically at least, everyone has access to land and its resources. In Solomon Islands and Vanuatu some places have matrilineal systems of landownership and some have patrilineal systems. Fiji, Samoa and Kiribati generally have patrilineal systems.

Land in all these societies is conceptualized in the context of three inter-related dimensions. The first is land as a physical entity for socio-economic sustenance. The second dimension conceives of land in relation to a complex web of social inter-connectivity which binds the land as a physical entity to socio-cultural relations. The third dimension links social relations to the spiritual and cosmological order of the ancestors. Thus land (referred to as *vanua* in Fiji and Vanuatu, *fenua*, in Samoa, *hanua* in many parts of the Solomon Islands, *abana* in Kiribati) is conceived of as more than simply a physical entity and economic commodity as in industrialized societies. It is a complex whole that embodies the physical and the social, the social and the spiritual in a holistic way. Land defines identity and cultural legitimacy in a dynamic way. However, as a result of the demand for commercial development conflict over land has emerged as a major destabilizing factor.

6.5.3 Economic exchange and reciprocity

Reciprocity refers to the exchange of goods and services within the community. This was quite common in traditional Pacific societies where there was no universally used money as medium of exchange. It was a way in which goods circulated and people's immediate needs were satisfied. Today despite the existence of modern currency many Pacific communities, especially

those who live in the villages, still practice various forms of reciprocity.

There are several types of reciprocity. **Specialized** reciprocity refers to exchange of specific goods in a simultaneous fashion. Two people may exchange goods, say a basket of yams in return for a mat, at the same time. Someone may need yams to hold a birthday feast for a child and the other person may need a mat for a new kitchen. The exchange satisfies both parties. Usually the social values of the exchanged goods are perceived as similar. **Generalized** reciprocity refers to exchange of goods without any specific value or time bound in terms of *repayment*. There is a general understanding that the good deeds will soon be reciprocated when the need arises. *Kerekere* as in Fiji is a form of generalized reciprocity. **Imbalance** reciprocity is when goods exchanged are of different social values and sometimes, this may lead to conflict. **Redistributive** reciprocity refers to collective exchange of goods through ceremonial processes such as *solevu*, (as in Fiji) death ceremonies, marriages etc. Kin-groups would collect goods such as coconut oil, mats, kerosene, pigs, cattle, taro etc. and eventually redistribute them amongst themselves at the end of the occasion. Reciprocity is an important social safety net mechanism in these ways:

- It ensures that various social needs of families are met without using money to buy things;
- It ensures that resources flow within a particular kin-group or locality thus helping to maintain self-sufficiency. It makes sure that perishable and non-perishable goods are always in circulation;
- It encourages mutuality in socio-cultural relations as a condition for intra-group support and social coherence.

6.5.4 Tradition and change

Traditional systems in the Pacific have been going through various degrees of change over the years as a result of modernization and industrialisation. Some communities have been changing faster than others. These changes have taken complex dimensions, rather than just a unilinear path towards modernization as normally assumed. For instance in some cases one finds

modern culture, institutions and processes dominating traditional modes of life. In other cases, the modern and the traditional shape each other and consequently forming a new synthesis. Still in some cases there are deliberate moves towards reviving and institutionalizing traditional culture as a means of engaging with the modern world. These complex syncretic processes continue to shape the trajectory of social and cultural change in the Pacific.

Nevertheless despite these changes there are certain customary and traditional modes of culture which have survived over the ages and continue to form the basis of contemporary life. While there are some general similarities between the Pacific countries studied, there are also a lot of differences. It is thus not possible to make generalizations.

6.6 Country study: Vanuatu

6.6.1 Brief history

It is believed that Vanuatu (formally New Hebrides) was settled from Solomon Islands in the West about 3,500 years ago. The language and culture was part of the greater Austronesian culture which originated in South East Asia and extended through migration across the Pacific. The *Lapita people* who settled later extended their migration and influence to Fiji. The first European to visit Vanuatu was Portuguese Captain Pedro Ferdinand De Quiros, in 1605. He named the islands "Tierra Australis del Espiritu Santo", on the belief that he had come across the much imagined great southern continent. Other sailors followed, including Captain James Cook in 1774 and other French explorers.

In the early 19th century English missionaries had arrived in Vanuatu together with *sandalwooders* who traded in sandalwood for the Asian market. Once the sandalwood was depleted the sandalwood traders turned to blackbirding, the practice of kidnapping locals for forced labour. They were taken to work in sugar and cotton plantations in Queensland and Fiji. In 1887 the British and French set up a joint naval commission to stop the labour trade. In 1902 both countries appointed their resident commissioners and in 1906 the commission was replaced by a condominium. Vanuatu was the only country in the world which was a condominium - that is it was under two colonial rules.

As a result of the labour trade and imported diseases brought to the country by missionaries, colonialists, settlers, sandalwood traders and blackbirders Vanuatu's population dropped from an estimated 100,000 in 1800 to 45,000 in 1935. Today the population has more than fully recovered and has reached an estimated 200,000. The population is 98 per cent Melanesians with the rest made up of Europeans, other Pacific islanders and Asians.

Vanuatu became independent in 1980 and a secessionist uprising in Espiritu Santo was put down with the aid of Papua New Guinean and British forces. The first Prime Minister was Walter Lini who was also a leader of the pre-independence liberation movement. Post-independence politics in Vanuatu had been shaky as a result of realignment and breaking up of political groups, individuals and parties. In 1991 a coalition government led by Prime Minister Maxime Carlot came to power and three years later Jean-Marie Léyé was elected president in 1994. After the 1995 general elections Carlot's government lost power but the demise of the new coalition saw Corlot coming back to power in April to September in 1996 only to be replaced by Serge Vohor as Prime Minister. After new elections in 1998, Donald Kalpokas became prime minister, but he resigned after a vote of no-confidence in 1999 and he was succeeded by Barak Sopé. It was also in 1999 that John Bernard Bani was elected president. Edward Natapei took over from Sopé as prime minister in 2001. In April 2004 Alfred Maseng became the country's fifth president but he was removed from office after only one month. Serge Vohor became prime minister for a second time in July 2004, and in August, Kalkot Mataskelekele was elected president. Vohor's government collapsed in December 2004 and following another election Ham Lini became Prime Minister.

6.6.2 Traditional Socio-political system

With about 118 different languages the Vanuatu society has a significant degree of diversity. Groups are defined in relation to either their matrilineal or patrilineal links. Some communities are hereditary in nature and are led by chiefs who inherit their positions and some are more egalitarian. The egalitarian communities are led by *big men* whose positions are derived from individual abilities. Both these systems are

different in many respects but sometimes there are areas of convergence. For instance a big man's son can become a big man if he can prove his worth. The son has the advantage over other competitors by virtue of his association with his father.

The socio-political organization is directly linked to land rights. Land symbolizes power and socio-political relations in the broader sense. Within a clan there would be a number of chiefs or big men under a senior leader. Each leader is responsible for looking after his local political unit. Over the years there have been attempts to integrate the traditional chiefly system into the modern state. This led to the setting up of the Vanuatu National Council of Chiefs, whose membership is drawn from the council of chiefs on various islands. Chiefs in each island are represented in the local council of chiefs and from there representatives are selected into the National Council of Chiefs.

The National Council of Chiefs is independent of national politics. It is more of a cultural symbol which unifies the diverse socio-political groupings in the Pacific. It also ensures that both the local and national levels of political leadership are integrated.

6.6.3 *Traditional system of land tenure*

Theoretically all land in Vanuatu is customary owned. This is established in the constitution which declares that all land belongs to Ni-Vanuatu. This constitutional provision provides the legal basis for the traditional ownership system which was based on collective rights of access to members of social groups. Traditionally land was vested in groups which were based on common descent, common participation in activities and local residence. The group and the land were integrated into a socio-cultural bond which defined group identity and culture. Individuals derived their social status, power, livelihood, name and rights to land through group membership and association. The individual acquired these rights from birth either through the mother or father, depending on whether the group was patrilineal or matrilineal. In addition, through marriage and kinship an individual could also extend his or her rights to land.

Land rights were not written and genealogical links were left to memory which was passed down through generations. Changes in the local social and political circumstances determined the way decisions on land were made. Primary rights were held by males because women usually changed residence upon marriage and were only accorded usufruct rights. However, when there were no male heirs women usually took over custodial rights over land. Women also provided the link to property rights for the husbands, sons and other males related through marriage.

The diverse variation in languages and culture also results in variations in social organizations and land tenure systems. But by and large there are similarities between various regions. In some tribal groups with a hierarchical system, male members of the kin group had relatively free access to land rather than allocation of land to individuals. In some cases individuals were allocated certain rights. In some matrilineal groups, the mother's children have access to her family's land. In fact the traditional system of land tenure in Vanuatu was very flexible and various forms of arrangements existed along the lines of matrilineal or patrilineal connections or both. The boundaries between kin groups were clear and land rights were also clearly demarcated along kin group lines. But at times this area of demarcation caused confusion and tension.

Land to the Ni-Vanuatu still represents a number of fundamental aspects. It is a means of survival, source of income, basis for political power and social status, link to the spiritual and cosmic world and a way of preserving culture and identity.

6.6.4 *Dispute resolution*

Dispute resolution within or between communities is carried out by the elders and chiefs. This is important for good relations and stability within the group. Dispute between individuals is often resolved at the individual level. When this fails it is taken up to the village or tribal level, depending on the severity and the potential consequences of the case. At the village level, the matter is usually dealt with by the *nakamal* or village council. In some cases chiefs have the authority to make rulings on compensation. In one case a young man kicked a woman in the stomach causing death and the chief ordered him to pay 10 pigs with tusks to the

relatives and not leave the village. This was deemed more effective in terms of rehabilitation and social stability than imprisonment which tended to make a “criminal” out of the perpetrator.

Land disputes tended to be more complex because of the absence of land boundaries. Part of the dispute resolution process was to engage in recitation of genealogical links and their relationship to land. The *nakamal* usually listens to both sides involving both men and women before making a final decision.

Usually compensation is involved and is paid by the relatives of the perpetrators to the victims. Compensation serves a number of important purposes. Firstly it is a token of forgiveness for the harm inflicted. Forgiveness is important in mending fractured personal motions. Secondly compensation helps restore normal social relations between two groups. It is a pro-active approach which involves both parties agreeing to a common aim. Thirdly it is a mechanism for consolidating kinship and communal ties. It is a form of unification which ensures sustainability of socio-cultural relations. Fourthly it is guarantee for future peace and stability. Fifthly it provides a channel for socio-economic exchange. The goods exchanged range from things such as mats, shell money, pigs, pig’s tusks, food and even land. Compensation involving land can be problematic because attempts by the future generation to reclaim land given out by their parents may lead to further conflict.

Traditional dispute resolution is still used in villages and even at the national level. During a major stand-off between the armed Vanuatu Mobile Force and Police Force, the National Council of Chiefs intervened by organizing a traditional peace-building session. The dispute between the two law enforcement agencies were too much for the government and judiciary to handle and the National Council of Chiefs which represented chiefs from different islands was the only institution with the authority and legitimacy to handle the situation.

The use of compensation can also be manipulated by some people to serve their personal interests. Today it involves money and the demand for cash may drive some people to manipulate situations for economic gain.

6.6.5 Role and status of women

A significant number of Vanuatu communities are matrilineal in nature; that is, matters pertaining to land titles are passed down through the female line. However, it must be understood that these communities are still by and large patriarchal in nature, that males still make political decisions relating to the affairs of the community and they still wield most of the political power. The line between matrilineal inheritance and patriarchal dominance is still very clear. In Vanuatu matrilineal rights does not necessarily translate into matriarchal power.

Traditional division of labour was carried out in groups. Groups of women would be involved in gathering firewood, gardening, cooking, basket weaving and fishing for the family the same way that groups of men would be involved in house building and gardening. Women are seen as sources of wealth by virtue of their skills in weaving and making shell money. They are also seen as medium of kinship links between groups through marriage and child-bearing. There is also a certain degree of flexibility in terms of women’s political status. The relatively egalitarian nature of the Vanuatu community allows women to rise up the socio-political ladder in terms of decision making.

6.6.6 Traditional forms of social protection

(i) Wantok system

The *wantok* system is the socio-cultural network which links together social groups through exchange, ceremonies, land rights and other forms of cultural practices. It is also an ideology which binds people of similar language, genealogical lines and history into a unitary social complex. The *wantok* system is a generic term in Melanesia to refer to one’s kin or those closely linked together either socially or biologically. It literally means same language (one talk or *wantok*) and has been a major force in shaping group identity and support. The *boundary* of the *wantok* system extends from the nuclear family in the middle and extends outwards for as far as people can relate to each other. It provides a network for community support in terms of provision of basic needs as well as traditional obligations.

Central to the philosophy of wantokism is the belief that the problem of an individual is the

problem of the community and the solution should be collectively approached. This provides the basis for individual and group social security in times of needs.

(ii) Ceremonial exchange

Special occasions for gift exchange take place from time to time. This is when “surplus” products are offered to guests from other villages and communities. On Tana Island for instance the practice of *nekowiar* or *toka* is a traditional festival which lasts about three days. Ceremonial activities, dancing, merry-making and gift giving are part of the occasion. As a form of social protection, these festivals provide a number of important functions. Firstly, the surplus produced by a community is exchanged for use by other communities. This ensures a constant circulation of food and goods within a locality. Secondly, the big feasts enable people to make up for what they lacked in their daily food intake. Leftover from feasts are usually shared amongst participants. Thirdly, these occasions help to consolidate socio-cultural relations and kinship networks and fourthly, due to the demand for mats, shell money and other artefacts the local expertise and skills are kept alive.

There are different types of goods exchange, depending on the occasion whether it is death, birth, marriage etc. These forms of exchanges constitute a socio-economic system in their own right as people manufacture products and exchange them as part of the reciprocal arrangement.

(iii) Compensation

Compensation takes place in various aspects of traditional Vanuatu life such as in conflict or in other situations where someone is hurt or loses something of value. Compensation is not only a form of *reparation* as generally believed, it is very much a system of distribution and re-distribution which ensures that various resources ranging from pigs, food crops, shell money, mats, pig tusks and in some cases land are circulated. It has a fundamentally social role in terms of ensuring good relations and stability within the community.

(iv) Use of traditional currency

Use of traditional currency such as red mats, pig’s tusks and kava have been in use before the arrival of Europeans and are still being used until today.

These were used as bride price, generalized exchange and gifts. Their usage today provides a very important social security purpose in terms of minimizing over-reliance on modern currency, the market economy with all its demands. This particularly helps the rural poor and those with little or no cash income to have access to certain services such as education and medical care which can now be paid from using traditional currency. This has been strengthened by the setting up of the Indigenous Bank as well as the Vanuatu Cultural Centre’s initiative to put in place a national framework for the use of traditional currency. In terms of “bride price” for marriage traditional currency is still popular, although the use of modern currency is increasingly gaining prominence.

(v) Customary land ownership

Land, custom and people are inseparably bound together in the Vanuatu context. Land is the source of sustenance, wealth, life and relationship. The collective and flexible nature of land tenure in Vanuatu ensures that everyone has access to land and its resources. This is an important social safety net system which provides for family and kinship sustenance. Today customary owned land acts as an important “fall back” position for those who cannot find formal employment. This is facilitated by the fact that everyone has more or less the same rights to access to land-use. However, in recent years there have been cases of conflict over land which has been resolved using traditional means of conflict resolution.

(vi) Traditional authority

Some communities have hereditary chiefly system and some have *big man* system based on achievement and chiefs play important roles in the process of peace-building, resources redistribution and projection of community identity. Ideally chiefs in the various local communities play a vital role in ensuring that people’s daily needs and welfare are met and that there is enough for every one. The prestige accorded to the big man depends on how well he responds to the needs of the community. A big man is chosen on the basis of the person’s ability to accumulate and re-distribute wealth as well as his services to the community. This system makes the big man a guarantor for social security. There is a reciprocal process where the big man provides for the community and in turn the community provides the person with political

legitimacy. Chiefly authority in Vanuatu is embodied in the Vanuatu National Council of Chiefs which represents chiefs from 14 island councils. Institutionally it is independent of parliament and national politics and only intervenes as a peace-making institution in cases where there is conflict. Chiefs also play an important role in conflict mediation.

(vii) Barter exchange

This is a form of reciprocity which involves direct exchange of goods between two groups. While decreasing in significance the barter system is still practiced in many communities in Vanuatu. This may involve exchange of goods such as pig's tusks for kava or red mats for pigs or yams for red mats. This ensures the constant flow of goods within the community and sustains self-sufficiency. This is a workable and efficient means of satisfying people's everyday needs.

6.6.7 Government policy and tradition

Of all the Pacific countries, Vanuatu is probably the most pro-active in terms of policies relating to traditional systems and customs. Since independence in 1980 the major policy focus was self-sufficiency and preservation of traditional custom. Successive governments have tried to facilitate this broad policy framework in various ways. The most tangible manifestation of this approach can be seen in the setting up of cultural institutions with the purpose of reviving traditional custom in its various manifestations - art, archaeology, language, literature, money system and norms.

The constitution of Vanuatu itself states that all land in Vanuatu is *customary owned*. This provides the broad legal framework for the protection of land and culture. Successive governments have tried to maintain this trend as a way of maintaining legitimacy amongst the population.

In terms of development policies, the Department of Economic and Sector Planning (DESP) of the Ministry of Finance is responsible for providing the technical and economic framework for national development. The DESP is still at an early state of incorporating traditional means of exchange and norms into its policy considerations. From 13 – 18 March 2005 a workshop organized by the Vanuatu Cultural

Centre in Malekula. Some of the suggestions relating to incorporation of traditional modes of exchange were accepted and have now been incorporated into the DESPs policy thinking.

The current Comprehensive Reform Program (CRP) undertaken by the DESP involves consultation with traditional chiefs and CSOs to ensure its effective implementation. The CRP involves reforms within the public service and the involvement of the private sector in developmental projects. There is also an attempt to incorporate the United Nations millennium goals into the CRP and cultural revival program.

There is government support for the role played by the Vanuatu Cultural Centre in the revival and promotion of Vanuatu culture and the National Council of Chiefs for its role in reinforcing traditional modes of governance. Some of these will be elaborated later.

6.9.8 Micro schemes and tradition

(i) Traditional money banks in Vanuatu project

This project by the Vanuatu Cultural Centre aims to provide a formal framework for the legalization of traditional money in everyday use. It is sponsored and funded by the United Nations Educational, Scientific and Cultural Organization (UNESCO) and the Japanese Funds-In-Trust for the Preservation and Promotion of the Intangible Cultural Heritage. The project aims to determine the extent of usage of traditional currency in Vanuatu, how this can be promoted through public awareness and how the intangible knowledge relating to skills and techniques of traditional money production can be preserved.

A survey to ascertain the extent of traditional money usage in various places in Vanuatu identified various issues of significance:

- Traditional wealth items are still being widely used and in some cases these have been integrated successfully into the modern economy.
- There was a need to diversify the modes of wealth to be revived, not only tusks pigs (the mostly highly prized), also mats which are of lesser value.

- Tangible items of wealth are closely linked to intangible aspects of culture. For instance wealth is linked to exchange and kinship links and so revival of traditional wealth has a direct bearing on revitalizing certain forms of social relations.
- Economic concepts such as loan, credit, investment, banking, interest and compound interest do exist in traditional cultures of the surveyed areas. The *bank* is not a social institution as such but a set of social relations between individuals and groups.
- Concepts of sound management and good governance also exist in the communities but the challenge is how to engage these with the market economy.
- There is a need to provide a framework, legal and economic, to ensure an uninhibited transfer of traditional wealth into cash and how this can be integrated into the cash economy.

The concept of traditional money bank involves the use of traditional money and other medium of exchange such as shells, red mats, kava, live pigs and pig tusks as exchangeable *currency*. The idea arose out of the belief that traditional culture is not just a museum piece to be preserved but a living phenomenon which needs to be lived. The inability of the state to implement infrastructural and socio-economic development in rural areas has created a developmental vacuum which has encouraged the growth of traditional monetary institutions.

(ii) ***Turaga development model for human security***

The Turaga concept is based on the Independence Development Goal put in place after independence in July 1980. This is summarized as follows: *This is only the beginning of our freedom as a nation. The next step is economic self-sufficiency and the road is even more difficult, but together we should try and achieve it within ten years.*²¹ Part of the decolonization ideology was revival of traditional systems of relationships and production with aim of *maintaining food*

*security, economic self-sufficiency and sustainable peace.*²²

The activities are organized around the *turaga governance system* based on the *cultural, customary and traditional environment, under which the people have lived in harmony and survived over centuries as communities*. The focus is on nurturing peace within the community, collective rights and responsibilities, sharing and caring for each other. Located in Pentecost, the Turaga system has three operating projects. The first is the Turaga Model for Peace and Human Security which deals with sustenance of good relations and stability within the community. The second is the Tanbunia Indigenous Bank and Development Programs. The Tanbunia indigenous bank has been operating successfully since 1983 and has benefited about 20,000 people. The traditional currencies used are red mats, pigs' tusks, live pigs, *kava* and shell money. Altogether about 50 development programs have been implemented in 150 local communities. The third is the Melanesian Institute of Philosophy and Technology, opened by the Minister of Culture in 1997 and which coordinates education needed for the implementation for the Turaga development programs. *Turaga* education is based on harnessing traditional forms of wisdom and how they can be applied in everyday situations.

The success of the *Turaga* system is due to a number of factors:

- It provides a real alternative for people in their everyday life, especially in relation to poverty alleviation and also sustenance of daily livelihood;
- It does not impose external concepts and processes which would be difficult to understand, but instead it nurtures and harnesses community-based values, philosophies, methods of production and institutions;
- It ensures direct participation of people in the various development projects;
- The *Turaga* system is sustained through education provide by the Melanesian Institute of Philosophy. Education provides the skills for the continuity of the system;
- The ownership of the system ultimately rests within the community itself, although

²¹ Turaga Development Model for Human Security document, December 2002, p1.

²² Ibid, opcit

there is an administrative arm which runs and directs its operation. It is driven by a strong sense of cultural pride;

- The activities and projects of the Turaga system are diverse and are linked to each other. This enables it to survive in the long term; and
- There is strong government support for the Turaga system.

(iii) ***National Bank of Vanuatu (NBV)***

The National Bank of Vanuatu recently introduced a micro-scheme targeted at rural-based clients who have been or intend to set up business for income generation and covers all types of economic projects. It is not available for non-business purposes such as acquisition of consumer goods, travel expenses, health and education costs etc. The two broad categories are micro loans which ranges from VUV 30,000 to VUV 249,999 and small finance which ranges from VUV 250 to VUV 1,000,000.

Although the NBV scheme is run on a purely commercial basis with defined eligibility requirements, loan application, processing and approval, declaration of collateral etc. it has also been able to incorporate the existing community structure, especially in relation to the chief's role, as an innovative way to make the scheme workable. The chief has to complete a Chiefs Certification form where he verifies the identification of the borrower, certify that the borrower is of good character and also pledge support to assist the bank in recovery action if required. Both the applicant and the chief must be made to understand the implications of the conditions and the responsibilities of the chief. The bank also ensures that the chief's identity and authenticity is first established before proceeding. Any certification signed by anyone else such as the local church pastor, provincial administrator or other community leaders other than the chief are declared invalid. If the chief does not provide correct information or if he fails to support the recovery action, the chief will be denied any more privilege in assessing further applications from that community or village in the future. This in effect means that the village or community will no longer be able to apply for micro scheme loan from the NBV.

The system uses cultural collateral in using the chiefly system as security and in the process

situates the responsibility for loan within the chief and the community itself. This may be interpreted as being manipulative and unreasonably authoritative on the part of the bank but at the same time it gives the community a sense of responsibility and empowerment to honour the agreement with the bank. Nevertheless as a result of this the scheme has proven to be successful. Although the interest rate is 27 per cent per annum calculated on a daily debt balance, the repayment rate has been high at about 90-100 per cent.

(iv) ***Savings clubs***

Savings clubs were set up by the Credit Union League, government and NGOs within the last two years to provide basic savings and lending services to the remote and economically disadvantaged sections of the community. Part of the aim is to increase the savings capacity of the communities by empowering them to engage in developing their traditional savings skills to save money. By June 2004 twelve clubs had been formed on the islands of Malekula, Santo, Maevo, Ambrym, Efate, Anatyam and Santo.

The Savings Clubs concept is based on the recognition that within rural communities a culture of savings already existed. People would save traditional wealth like mats and pigs for special occasions and there was always continuous supply as a result of this. It is assumed that this culturally induced behaviour can be easily translated into saving cash. So far this project is expanding and has been highly appreciated by the communities concerned.

(v) ***The Vanuatu cultural centre (VCC)***

The VCC is the only one of its kind in the Pacific was set up to record and promote aspects of the diverse cultures in Vanuatu. Although it predates independence its philosophy was based on the fact that in the culturally diverse and competitive world, culture, especially its traditional form, provides a natural cushion to facilitate change. The VCC is the umbrella organization for four major institutions, the National Museum (NM), Vanuatu Cultural and Historical Site Survey (VCHSS), National Library (NL) and National Film and Sound Unit (NFSU).

The NMs aim is to revive disappearing forms of art and craft and also to support artists working on new forms and media. The museum has a

wide collection of about 3,500 artefacts from all over Vanuatu. The VCHSS aims to build and maintain a database of cultural, archaeological and historical sites of significance throughout Vanuatu. It also conducts surveys to identify and document these sites, train locals in techniques of survey planning, execution and excavation, disseminate survey results, through both written and oral reports and assist the protection and conservation of important sites in the country. The NL, with a collection of about 15,000 books, lends books and also holds research collection material related to Vanuatu and the Pacific region. The NFSU has over 2,500 hours of audiotape, 2,300 hours of videotape 50 hours of film footage, and 7,000 photographs, all relating to life in Vanuatu today as well as in the past.

The VCC was set up by the government but it operates as an autonomous institution. Its activities encapsulate the government's policy relating to reviving and strengthening traditional culture.

(vi) ***National council of chiefs (NCC)***

Although the NCC is outside the ambit of formal party and state politics, it is nevertheless, an important component of Vanuatu cultural and political life, as seen in its intervention and peace making role during the standoff between the Vanuatu Police and Vanuatu Mobile Force. The NCC is sanctioned by the state and is officially recognized as a living repository of cultural wisdom in traditional decision-making.

The NCCs roles as provided in the constitution are firstly to protect, preserve and promote culture and tradition and secondly to scrutinize and endorse any parliamentary bill to do with custom and tradition which go through parliament. The chiefs operate through the *nakamal* (meeting house) through which they extend their influences. The levels of respect for chiefs differ considerably. In some cases they are highly regarded but in some cases their influence and power are quickly disappearing as a result of the influence of education and other forms of modernization. In the last few months training in the form of computer literacy, minute taking, etc. have been carried out by the University of Queensland.

The NCC has no political power as such but has a symbolic and reconciliatory role to play in times of disputes. Because most islands do not have

policemen the chiefs are largely responsible for the law and order problems. Chiefs still act as mediators and are usually the ones mandated to pay fines and compensation on behalf of the perpetrators or wrongdoers. Because of its high status it does not even directly participate in the development programs of the community.

(vii) ***Vanwoods microfinance***

This is one of the most successful microfinance projects in the South Pacific. Vanwood started in 1996 as a pilot project implemented under the then Department of Women and Culture with financial and technical support from the UNDP/UNOPS Regional Equitables and Sustainable Human Development Project. This was in response to the Vanuatu National Plan of Action for Women which aimed to provide disadvantaged women with access to microfinance and income earning opportunities.

Vanwood's focus is on promotion of micro enterprises and household savings amongst the economically inactive and poor women in the squatter settlements within and around Port Vila. It was registered under the Charitable Association Act of Vanuatu in August 2003 thus becoming a full-fledged microfinance institution. The target customers include poor households with irregular income, low income households, existing and potential business owners who have no access to formal business services.

Vanwood's services are wide-ranging and consist of the following:

- Pledged savings: A compulsory savings scheme of VUV 200 per week and based on interest at prevailing bank rates;
- Care savings: Term savings scheme to build up funds for intended purposes such as traditional obligations, household assets, home improvement and education for the year. The required minimum balance is VUV 1,000 and the funds are withdrawn on a particular date;
- Special savings: A savings scheme wherein a member can save any amount and can be withdrawn at designated business hours;
- Regular business loans: These are aimed at assisting group members to set up or expand micro enterprises with loans ranging from

VUV 10,000 to VUV 75,000. The term loan is 20 weeks with add-on interest of 20 per cent;

- Educational loans: These are geared towards loans to meet the educational needs of children and range from VUV 10,000 to VUV 20,000 payable in 10 weeks with add-on interest rate of 20 per cent. These are available to those who have demonstrated no delinquency in their previous loan;
- Home improvement/Asset loans: These are for home improvements, house repairs, toilet construction, purchase of appliances, furniture and fixtures and range from V 10,000-VUV 100,000. They are only available to those who have successfully paid up their second regular business loan with Vanwoods;
- Multi-purpose loans: These are available to members for emergency needs, calamities and custom ceremonies, and are available only to members who successfully paid up their second regular business loans.

The Vanwood project has been successful for a number of reasons.

- Mobilizing and empowering the women to feel more responsible for the welfare of the community made a lot of difference. Traditionally women have been the socio-economic workhorse of the family and providing the necessary encouragement and resources helped to harness women's potential even more and ensured greater productivity;
- The project was appealing to those genuinely in need of help in as far as micro-enterprises were concerned. They felt that Vanwood had an appropriate approach which directly addressed their everyday life situations;
- The scheme built in various incentives such as progression to higher loans if earlier loans were properly serviced. Instead of promising instant success, there was a view that slow incremental progression was the best way; and

- The scheme was community based and the support of the chiefs and tribal members was sought first as part of the implementation process. The use of social collateral was evident. There was social pressure for women to meet their repayments to ensure that the reputation of a debt-free community was upheld.

(viii) *Use of traditional goods for school fees and health bills*

The use of food commodities (such as pigs, chicken, taro, yams etc) and other traditional money (shells and red mats) to pay for school fees and health bills are ongoing practices. The Ministry of Education has been encouraging the practice to ensure that those who do not have access to education are given the chance.

A recommendation by the traditional money banks in Vanuatu project has specifically called for the formalization of the use of traditional goods for the purpose of paying for school fees and health bills.

(ix) *Vanuatu Rural Development and Training Centre (VRDTC)*

The VRDTC aims to provide a social safety net for dropouts from the formal education sector, ensure gender equality, and advance rural development. It also aims to promote the UN's Millennium Development Goals, especially in relation to empowerment of women, combating HIV/AIDS, malaria and other diseases, ensure environmental sustainability and development of partnership for development.

To achieve this VRDTC engages in training activities in the areas of agriculture, forestry, fisheries, homeware, joinery/carpentry, health, environmental studies, culture and custom, arts and craft, legal studies and business development. The goal is to develop and expand income generating activities and thus courses are designed to ensure quick and effective response to socio-economic problems of the community.

The VRDTC operates throughout Vanuatu and is fully supported by NGOs and the government. It is based on the assumption that capacity building through education and skills-development are important in poverty alleviation and community welfare enhancement.

The success of VRDTC is based on a number of factors:

- Taking education to the community and locating it within the rural context;
- Developing of individual technical skills which are of vital use to the local communities;
- Support by women in response to the women empowerment provisions of the strategic plan.
- Broad support because of the immediate benefits to the community; and
- Use of traditional means of communal cooperation and use of traditional kinship links to generate broad public support.

(x) ***Vanuatu association of non-governmental organizations (VANGO)***

VANGO is the umbrella organization for civil society organizations in Vanuatu. Its functions include:

- IT training (funded by EU) to ensure computer literacy amongst grassroots organizations;
- Training in development management as a way of ensuring efficient development planning capacity for rural development groups;
- Help community development organization to write proposals for community projects to enable them to effectively source funding;
- Help seek money from donors to community projects;
- Setting up a volunteer scheme for community service throughout Vanuatu;
- Setting up a rural e-mail project to help ease communication. This is based on the “people first” concept in Solomon Islands; and
- Help members wherever possible in poverty alleviation strategies.

With 82 members, VANGO carries out regular consultation with various government departments and international organizations such as the European Union. VANGO is consults with the EU on project relating to poverty reduction.

Approval of grants is done on a case by case basis rather than using a general criterion.

VANGO does not directly involve itself in micro schemes but it does help empower NGOs involved in micro scheme through training and other means. It also supports the revival of traditional culture and also has institutional links with the National Council of Chiefs and Vanuatu Cultural Centre.

6.6.9 Recommendations on micro-scheme and tradition

A number of important aspects of traditional culture and social security needs emphasizing:

- Within the traditional Vanuatu society there are notions of savings and banking which could be adapted into the market economy. This could be useful in terms of savings made from income generating projects;
- The integration of traditional wealth into the modern economy needs to be encouraged because both can complement each other. How this is done should be well thought out and implemented;
- The use of cultural and community collateral such as the authority of chiefs (as in the case of the VNB) may prove to be an innovative way of making micro schemes successful. This needs to be supported but the down side is that the whole community can be penalized for the inability of the chief to carry out his duty properly;
- The part played by women in micro schemes is very crucial because of their proven record in generating income and saving for the family. Their involvement in micro schemes need to be encouraged and facilitated further. Their traditional roles as providers of family welfare can be fully adapted to new forms of social security projects. The family needs to be the target of social security;
- Group-based schemes probably have the best chances of success due to the social support and collective mobilization of resources involved. Traditionally most communities in Vanuatu operated on a collective basis and this needs to be a

harnessed towards income generating potential. However, individual schemes should also be encouraged as a way of ensuring that those with entrepreneurial potential are given the chance to develop on their own;

- Because a significant number of micro schemes involve land (as in agricultural projects etc.) it is important to ensure that customary land problems such as disputes over boundaries, access, titles, rights etc, are sorted out first. This is more so since most land in Vanuatu is not registered. The continuing commercialization of land in Vanuatu may pose a major problem in the future;
- Certain forms of socio-cultural obligations associated with gift giving may pose a burden on the family and may divert resources away from family savings. It's important to control this.

6.7 Summary of findings and major recommendations

The study has shown that traditional culture still plays a significant role in the daily lives of Pacific people. There is a complex process taking place where on one hand there is the influence of modernity and all its manifestations and on the other hand is the desire of Pacific people to maintain aspects of their traditional culture as a way of reinforcing their group and individual identity. Traditional forms of social protection are linked to the broader processes of socio-economic exchange and socio-political stability. The study has identified a number of significant aspects of tradition and social protection from the five countries studied which deserve attention.

6.7.1 Key findings

The complex inter-relationship between the traditional and the modern expresses itself in virtually all aspects of Pacific community life including the socio-political system, economic system, systems of social security, gender relations, etc. Over the years islanders have selectively chosen aspects of both which they find most convenient and workable when dealing with issues of everyday life. For instance, in the case of Samoa, traditional *matais* (chiefs) are the only ones mandated by the constitution to become parliamentarians. In Fiji and Vanuatu

institutionalized systems of chiefly leadership to complement the mainstream political system exist. Many people survive by engaging in “social dualities” such as subsistence and market economy, individual entrepreneurship and communal participation, profit maximisation and redistribution etc.

- Traditional culture and customs are not seen as belonging to the past but as living and operational phenomena which serve contemporary needs. At the same time it can be used to define identity in a fast changing and increasingly complex world.
- Dramatic changes in the Pacific since independence have re-shaped the way tradition is conceptualized, operationalized and adapted. Pacific cultures do change and these changes have been due to the adaptive nature of Pacific people to the emerging challenges of globalization and modernity. Some aspects of culture such as land rights have evolved only as far as the needs dictate.
- Traditional Pacific societies are organic and integrated in the sense that no particular aspect, whether it is political leadership or socio-economic exchange, is autonomous. Instead these aspects are all intrinsically linked. For instance one's political status depends on exchange for sustainability and legitimacy. Structure of society is linked to kinship relations and landownership is linked to status and kinship links etc. To change one means changing other aspects as well.
- The country studies show that traditional systems of social security are closely linked to systems of political governance, socio-economic exchange, gender role, conflict resolution mechanisms etc. Traditionally, there were no institutionalised systems of social protection as such but each component of social life (exchange, governance etc.) had a role in social protection. The entire kinship system itself, whether referred to as *veiwekani* in Fiji or *fa'a Samoa* in Samoa or *wantok* in Vanuatu and Solomon Islands provide the foundation of social protection which sustain individuals and groups on a daily or occasional basis.

- Traditional forms of social protection are still very much practiced today in a variety of forms as we have seen in the country studies. They play a number of important parts by subsidizing the demands of the market economy and cushioning the impact of economic pressures on the families concerned. They also allow for circulation and reproduction of certain traditional goods which would have otherwise disappeared. They also help to maintain social coherence at a time when families are disintegrating as a result of economic pressures. Furthermore they provide a sense of belonging and identity for people.
- Traditional forms of social protection exist in various forms such as collective reciprocity of goods and services, ceremonial exchange or even at a level of individual behavioural disposition where one is expected by custom to be generous. It can also exist at the level of cultural philosophy relating to ideals of altruism, selflessness, neighbourliness, etc. The levels of practice and philosophy reinforce each other.
- The study has found that traditional forms of social organization and norms can be successfully used to facilitate and promote micro schemes. One of the demands of the market economy is individual entrepreneurship. Many Pacific communities, because of the integrated communal life they are part of and used to, find it difficult to adapt. This has been a cause of failure in many of the income generating activities.
- In all the countries studied there have been considerable successes in the integration of traditional values such as collective participation, sharing of resources and social integration in micro schemes. The integration between modern women entrepreneurship and the traditional role of women as custodians of family welfare has been a significant factor for success. The use of the chiefly system as means of legitimization (as in Samoa) or debt repayment (as in Vanuatu) is another example. In situations where it is difficult to produce assets as collateral the use of social and cultural collateral has been seen to be appropriate and workable. Group investment based on community trust and good relations have produced positive dividends.
- It was also observed that some aspects of tradition tend to undermine the culture of savings. Some of these practices such as *fa'alavelave* in Samoa can be adjusted to make sure that the burden on the people is not too heavy. It is possible to strike a harmonious balance between tradition and micro schemes.

6.7.2 General recommendations

- Governments in the Pacific should recognize the importance of traditional norms and practices in micro schemes. Policies relating to development and micro schemes should have specific references to this.
- Those micro schemes which have been successfully integrating the two modes must be given more support and encouragement and replicated elsewhere in other parts of the country. There should be an in depth study of the reasons why this model has not worked in some cases and mistakes rectified.
- Like in Samoa (where the government has discouraged the use of small mats for ceremonies) there should be some government guidelines (not rigid ones to allow for people to still make a choice) to ensure that certain traditional obligations are not impediments to poverty reduction.
- Because many of the micro scheme organizations operating within the countries studied operate autonomously, it is important that there should be a national network set up by the government to ensure that there is a uniform national structure and process and that these organizations (who in some cases may be competing against each other) can share experiences and lessons or success and failure.
- To facilitate the national network there should be a central database which holds information about micro schemes.
- A training manual on tradition and income generation/business should be produced as guideline for those involved in group and collective projects. While people *live* their

culture, it is important to *teach* or provide an analysis of aspects of their own culture which they have only taken for granted.

- The family (nuclear or extended, depending on the circumstances) should be the primary

target beneficiaries of the micro scheme projects, although the process may involve larger groups. For instance a project may involve the whole village, the ultimate beneficiaries would be the families and how they are able to sustain themselves.

Chapter 7 ILO Convention 169 for Indigenous and Tribal Peoples in the Pacific Island Countries

7.1 Introduction

The ILO Convention 169 provides the framework for protection and treatment of *tribal* and *indigenous* peoples. The study looks at the applicability of the convention to the indigenous peoples of the ILO Pacific members, namely Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu. This issue is an important one for a number of reasons. Firstly these countries were at some point in their history under colonial rule and under the colonial system their indigenous institutions, political rights and economic development were directly controlled by the colonial powers. Now that they are independent, it is important to examine the extent and means by which the indigenous peoples have control of their institutions as the convention advocates and the implications of this on the indigenous population. Secondly, in all the five countries the indigenous population constitutes the demographic majority – in all cases except Fiji, over 90 per cent of the total population – and hold political power. Thirdly, because the governments in these countries are dominated by indigenous peoples, it is important to see whether the provisions of the convention applies to them in the same way that it applies to other indigenous groups in other parts of the world who are marginalized and subjugated.

The Fiji situation is the most complex because the indigenous population was a minority at one stage in history and also because the applicability of the convention has been a subject of debate between on one hand nationalists who want to use it to promote Fijian interests and on the other hand those who argue that the convention is not applicable due to the politically dominant position of indigenous Fijians. In the other countries where the indigenous population makes up an overwhelming majority, indigenous rights are taken for granted and debate on the subject rarely takes place. It is for this reason that there will be a more detailed analysis of the Fiji situation to help clarify the situation.

This Chapter aims to examine the links between the ILO Convention 169 and the situation of indigenous peoples in the Pacific. In particular it

makes references to issues of social security and health. It also identifies some of the shortcomings of the convention and provides some recommendations for possible future review of the convention.

7.2 ILO Convention 169 and the Pacific: an overview

Article 1 of the ILO Convention 169 of 1989 applies primarily to:

- (a) tribal peoples in independent countries whose social, cultural and economic conditions distinguish them from other sections of the national community, and whose status is regulated wholly or partially by their own customs or traditions or by special laws or regulations;
- (b) peoples in independent countries who are regarded as indigenous on account of their descent from the populations which inhabited the country, or a geographical region to which the country belongs, at the time of conquest or colonisation or the establishment of present state boundaries and who, irrespective of their legal status, retain some or all of their own social, economic, cultural and political institutions.

Given the global changes since 1957 the convention is committed to providing the legal framework for greater autonomy for these peoples to exercise control over their own institutions, ways of life and economic development and to maintain and develop their identities, languages and religions... This is meant to remove the assimilationist orientation of the earlier standards... Many of these peoples are unable to enjoy their fundamental human rights to the same degree as the rest of the population of the States within which they live, and that their laws, values, customs and perspectives have often been eroded..."

Article 1 is based on the assumption that indigenous and tribal peoples in independent countries who may also be minorities who have been marginalized economically and politically by dominant institutions and cultures introduced from outside. It is assumed that these groups still

maintain their inherited cultures which can be differentiated in a way or another from other cultures.

Clearly the convention is conscious of the socio-economic, political and cultural marginalization of certain tribal and indigenous groups in situations where they have been assimilated into dominant cultures and systems and calls for their self-determination, at least to the extent of controlling their own cultural inheritance, institutions and means of livelihood. This applies to many tribal and indigenous groups who have been victims of colonial and post-colonial domination and whose rights have been undermined.

In the Pacific the convention has not really provoked any intensive debate because, except in the case of Fiji, in many cases because of the predominance of the indigenous population, the situation of the indigenous peoples have always been taken for granted. Although most Pacific societies have been under colonial rule at some point in their history, the indigenous populations have been the politically dominant, although significant economic power in some parts of the economy maybe in the hands of various minority groups. Perhaps the most unique situation is Fiji where the indigenous population was a minority from 1946 to 1996. Figure 1 (table and bar graph) shows the proportion of indigenous population in the five countries. Fiji has a slight majority of 52 per cent while Kiribati, Samoa, Solomon Islands and Vanuatu all have overwhelming majorities of over 90 per cent respectively. The numerical superiority of the indigenous groups have always been a feature of these countries since independence, except for Fiji which has been a bi-polar society where two major ethnic groups have always dominated the demographic as well as political landscape. The Indo-Fijian population overtook the Fijian population in 1946 and this reversed after 1987 as a result of Indo-Fijian migration out of Fiji following the 1987 nationalist military coup.

Table 7.1 *Proportion of indigenous population in Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu*

Country	Indigenous groups categories	Percentage of population	Status
Fiji	Fijian	52	Slight majority
Kiribati	I-Kiribati	98	Big majority
Samoa	Samoaan	93	Big majority
Solomon Islands	Melanesian Solomon Islander	94	Big majority
Vanuatu	Ni-Vanuatu	98	Big majority

Sources: Derived from National Census Reports for Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu.

The minorities are largely non-indigenous migrants or those of indigenous and non-indigenous mixed blood. Only Fiji has a relatively large non-indigenous population of 48 per cent while the other countries have less than 10 per cent respectively: Kiribati, 2 per cent; Samoa, 7 per cent; Solomon Islands 6 per cent; and Vanuatu, 2 per cent. Figure 2 shows details of the non-indigenous population.

Table 7.2 *Proportion of non-indigenous population for Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu.*

Country	Non-indigenous groups	Percentage in relation to total population	Status
Fiji	Indo-Fijians, Others	48	Big minority
Kiribati	Tuvaluan, European, Kiribati-Tuvaluan, Kiribati-Others	2	Small minority
Samoa	Mixed, European	7	Small minority
Solomon Islands	Polynesian, Micronesian, Chinese, European, Mixed, Other	6	Small minority
Vanuatu	Part-Ni Vanuatu, Other Melanesian, Polynesian, Micronesian, Europeans, Chinese, Vietnamese, Others	2	Small minority

Sources: Derived from National Census Reports for Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu.

Apart from their numerical superiority, the indigenous populations also dominate political

power. This has been the trend since independence, except for Fiji where competition over political power between Fijians and Indo-Fijians has been a dominant feature of the political system and a fundamental cause of instability.

7.3 Local definitions of indigenous

Ethnic and social identity is usually defined either internally by the group itself or externally by others. Article 1(2) of the convention emphasizes the importance of internal identity thus: Self-identification as indigenous or tribal shall be regarded as a fundamental criterion for determining the groups to which the provisions of this Convention apply. Self-identification of indigenes is reflected in the official government categorization (such as in the national census reports) of the respective countries: Fijian in Fiji; I-Kiribati in Kiribati; Samoan in Samoa; Melanesian in Solomon Islands and Ni-Vanuatu in Vanuatu.

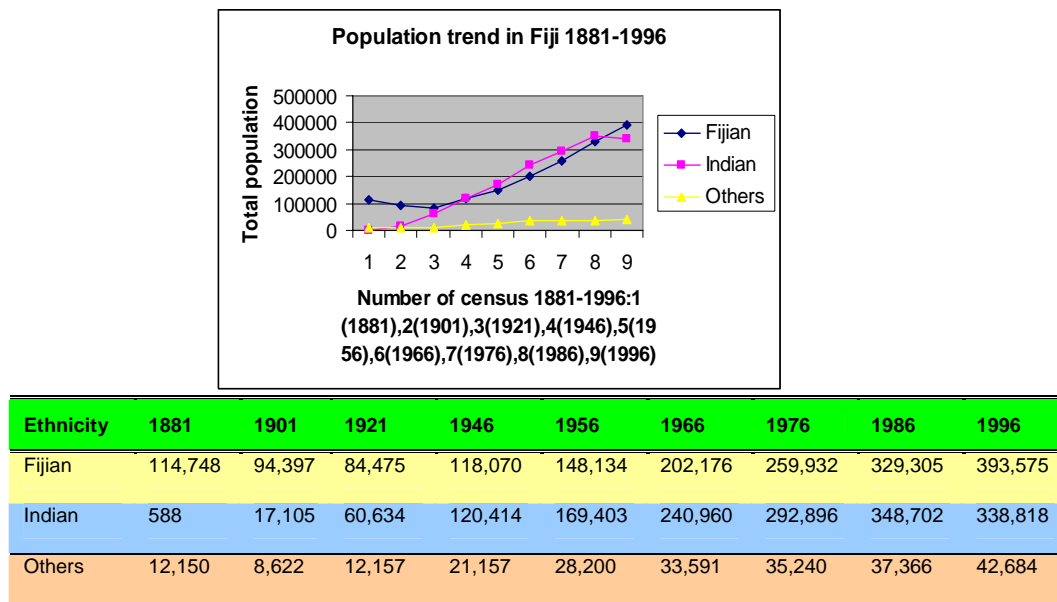
The question of whether those with mixed indigenous blood are classified as indigenous can be a problematic one. In Fiji one automatically becomes a Fijian in a situation where the father is Fijian regardless of the background of the maternal parent. This is also the case in other countries, except in matrilineal communities in Vanuatu and Solomon Islands where maternal influences are very strong.

The application of the convention to the indigenous situation in the Pacific is not as clear cut as maybe assumed. This is partly because in all the Pacific countries concerned, the indigenous community is the dominant group. The case studies which follow attempts to throw some light into the issue.

7.4 Case study: Fiji

Of all the five Pacific island countries, Fiji has the most mixed population with a bi-polar tendency compared to the others which are predominantly indigenous. The population trend since 1881 is shown in the graph below.

Figure 7.1 Relative size and increase in population in Fiji, 1881-1996



Source: 1996 Census of Fiji, Bureau of Statistics: 29

The graph shows the continuing dominance of two ethnic groups (Fijian and Indo-Fijian) in Fiji. The Indo-Fijians outnumbered the Fijian population in 1946 and by 1996 the trend reversed. From 1996 onwards Fijians became the majority and given the current rate of

demographic shift it is projected that by 2010 the indigenous Fijian population would make up close to 60 per cent of the population, a relatively large majority.

The *Others* category consists of a number of minority ethnic groups officially classified as Chinese, Europeans, Part-Europeans, Rotumans

and Pacific Islanders. Their respective sizes are shown in Figure 4. These groups constitute about 5 per cent of the total population.

Table 7.3 Fiji's population by ethnicity, 1881-1996

Ethnicity	1881	1901	1921	1946	1956	1966	1976	1986	1996
Chinese	+	+	910	2,874	4,155	5,149	4,652	4,784	4,939
Europ.	2,671	2,459	3,878	4,594	6,402	6,590	4,929	4,196	3,103
Fijian	114,748	94,397	84,475	118,070	148,134	202,176	259,932	329,305	393,575
Indian	588	17,105	60,634	120,414	169,403	240,960	292,896	348,702	338,818
P-Europ.	771	1,516	2,781	6,142	7,810	9,687	10,276	10,297	11,685
Rotuman	2,452	2,230	2,235	3,313	4,422	5,797	7,291	8,652	9,727
Pacific Is	6,100	1,950	1,564	3,717	5,320	6,095	6,822	8,627	10,463
Other	156	467	789	514	91	273	1,270	810	2,767
Total	127,486	120,124	157,266	259,638	345,737	476,727	588,068	715,375	775,077

Source: 1996 Census of Fiji, Bureau of Statistics: 29

7.5 The indigenous question

The figures show that the Fijian indigenous population was a minority for about 50 years (1946-1996). The question remains as to whether the situation of Fijians within the 50 years of demographic minority status could be said to constitute a situation of marginalization. This has to be seen in the broader socio-economic and political dynamics of the colonial and post-colonial situation. The British colonial system, which was established in 1874, had a number of significant characteristics outlined below.

- Through the centralized colonial state a homogeneous collective ethnic identity was created. The Fijian administrative structure set up under the 1876 Native Ordinance became the institutional means of political, social and cultural collective identification.
- The colonial *native policy* acted as a *protective* mechanism to shield Fijians from the excess of Western influence. For instance Fijian communal land was declared inalienable and a number of Fijian institutions such as the Great Council of Chiefs and Fijian Administration were set up to ensure that Fijians were kept within the bounds of their customary systems.
- The traditional socio-political structure, specifically the chiefly system was reconfigured to suit the demands of the colonial administration. In many ways this consolidated the power of chiefs and

institutionalized the chiefly system as part of the state structure.

- The protective colonial system institutionalized ethnic separation and also gave Fijians a sense of ethno-political distinctiveness compared to other ethnic groups. This became the basis for future nationalistic mobilization.
- The colonial system locked Fijians into communal village life, under chiefly tutelage, which marginalised them from mainstream economic development, professional development and education and as a result they continued to lag behind other ethnic groups in these areas. Over the years these became the basis for nationalist grievances and political conflict.
- The protective policy of the colonial regime gave way to the doctrine of *paramouncy of Fijian interest* which argued that as indigenous people Fijians had the right to be treated preferentially and later this was interpreted as the right to assume and maintain political power and dominance.

7.6 Economic situation of indigenous Fijians

It has been argued that Fijian political supremacy was a way of *balancing* their economic marginality. While the colonial policies provided *protection* for Fijian interests, it also created

conditions for economic retardation. However, over the years, especially after independence, attempts have been made to redress the imbalance. A few examples here may suffice.

As shown in Figure 7.4 the per capita cash income of Europeans and Part-Europeans in 1953 was FJD 468, followed by Chinese (FJD 279), who were mostly shopkeepers, and then Indo-Fijians (FJD 113), while indigenous Fijians had the lowest per capita of only FJD 60.

Table 7.4 *Estimated per capita income by ethnicity, 1953 (FJD)*

Ethnic Group	Income per head (Cash and subsistence)	Income per head (Cash only)
Indigenous Fijians	121	60
Indo-Fijians	128	113
Europeans/Part-Europeans	468	468
Chinese	302	279
Other Categories	147	113

Source: "The Pattern of the Fiji Economy, The National Income, 1950-53." Fiji Legislative Council Paper No.44 of 1956.

Disparity was also visible in professional positions as shown in Figure 7.5. In 1958, of the total number of lawyers, doctors and dentists, there were 2 Fijians, 58 Indo-Fijians, 1 Chinese, 2 Part-Europeans and 74 Europeans. By 1966, only four years before independence, the ethnic proportion in relation to a number of middle class professions were as follows: lawyers (0 Fijian to 38 Indo-Fijians), doctors (1 Fijian to 12 Indo-Fijians) and dentists (1 Fijian to 8 Indo-Fijians).

Table 7.5 *Numbers Qualified in Selected Professions by Ethnic Group, 1958*

Ethnic Group	Lawyer	Doctors	Dentists	Total
Fijians	-	1	1	2
Indo-Fijians	38	12	8	58
Chinese	-	1	-	1
Part-Europeans	1	1	-	2
Europeans	17	51	6	74
Total	56	66	15	137

Source: Fiji Legislative Council Papers No.1 of 1960: 12.

The low number of Fijians in the middle class professions was indicated by income distribution. In 1967 for instance only 4 per cent of those with income above FJD 5,000 were Fijians compared to 16 per cent for Indo-Fijians, 38 per cent Europeans and 24 per cent Chinese. At the same time Fijians predominated in the low income bracket (FJD 0-1,000).

As Figure 7.7 shows, the disparity in the managerial positions in 1986 was obvious with Fijians constituting only 23 per cent and Indians 77 per cent. This disparity continued (in fact slightly worsened) in 1996 with Fijians making up 22 per cent and Indians 78 per cent respectively. However, for the professional and technical staff the proportions are almost equal with Fijians making up 45 per cent and Indians 53 per cent in 1986 and 54 per cent compared to 47 per cent respectively in 1996.

Table 7.6 *Ethnic distribution of "middle class" occupational category, 1986 and 1996*

Occupational Category	Fijian		Indian	
	1986	1996	1986	1996
Managerial	487 (%)	1,292 (22 %)	1,603 (76 %)	4,548 (78 %)
Professional and Technical	7,124 (45 %)	13,699 (53 %)	8,450 (54 %)	12,351 (47 %)
Total	7,611 (43 %)	14,981 (47 %)	10,053 (57 %)	16,899 (53 %)

Source: Fiji Bureau of Statistics, 1989; 1998.

An area of disparity is in the corporate sector where Fijians constitute a significantly small minority compared to Indo-Fijians. For instance as Figure 7.7 shows, of the various managerial categories surveyed Fijians made up 22 per cent compared to 78 per cent for Indo-Fijians.

Table 7.7 *Ethnic Distribution of Corporate Managers by Category, 1996*

Man. Category	Fijian (No.)	(%)	Indian (No.)	(%)
Directors/Chief Executives	196	18	879	82
Small business managers	568	20	2,344	80
Specialist managers	193	40	285	60
Other department managers	335	24	1,040	76
Total	1,292	22	4,548	78

Source: Fiji, 1998:175

Disparity was also observed in the distribution of taxi permits where Indo-Fijians tended to dominate as shown in the figures from 1988 to 1994. But as a result of the government affirmative action policies since 1987 and the ministerial order to freeze granting of Indo-Fijian permits in 1990 Fijian taxi ownership increased significantly from a ratio of about 1:10 in 1988 to about 1:3 in 1994. Figure 7.8 shows details of ethnic distribution of taxi permits from 1988 to 1994.

Table 7.8 *Distribution of taxi permits by ethnicity*

Year	Fijian	Indian	Others	Total
1988	272	2,265	49	2,586
1989	272	2,265	49	2,586
1990	289 (+17)	2,260 (-5)	37 (-12)	2,586
1991	399 (+110)	2,274 (+14)	37 (nil)	2,710 (+124)
1992	554 (+155)	2,279 (+5)	46 (+9)	2,879 (+169)
1993	748 (+194)	2,235 (-44)	107 (+61)	3,090 (+21)
15 Jun, 94	988 (+240)	2,239 (+4)	124 (+17)	3,351 (+261)
16 Aug, 94	1,100 (+112)	2,239	139 (+15)	3,478 (+127)
11 Nov, 94	1,234 (+134)	2,239	153 (+14)	3,626 (+148)
31 Dec, 94	1,289 (+55)	2,239	155 (+2)	3,683 (+57)

Source: Fiji Dept. of Road and Transport, 1994: 18.

The distribution of various occupations in Figure 7.9 shows that while there are various degrees of disparity between Fijians and Indians in the categories shown, by and large there is an equal share of the respective occupations.

Table 7.9 *Occupational categories of economically active by ethnicity (Indo-Fijians and Fijians only), 1986*

Occupational Category	Fijians (%)	Indians (%)	Total
Professional, technical and related workers	45	54	15,574
Administrative and managerial	23	76	2,090
Clerical and Related workers	38	62	13,726
Sales workers	26	74	13,832
Service workers	60	40	14,479
Agriculture, animal husbandry, forestry workers and fishermen	60	40	102,614
Production, related workers, transport equipment operators and labourers	56	44	28,268
Workers not classified by occupation and unemployed	70	30	13,407
Total	56	44	203,991

Source: Calculated from Fiji Bureau of Statistics, 1989:52.

The occupational category which has a clear Fijian dominance is the civil service. There was a deliberate attempt after the 1987 military coup to allow for more Fijian recruitment into the civil service and the 1990 Constitution decreed that Fijians should constitute at least 51 per cent of the total number of civil servants. Figure 11 shows the number of appointments made in the civil service from 1991 to 1994 and Figure 12 shows the total number of staff in the civil service from 1991 to 1994. In both cases Fijians clearly dominated. The trend continues to this day. Currently, more than 60 per cent of civil servants are Fijians. The imbalance continues as a result of resignations and migration of Indo-Fijians out of the country.

Table 7.10 *Civil service appointments, 1991-1994*

Year	Fijian / Rotumar	%	Indian / Others	%	Total
1991	594	58.6	417	41.4	1011
1992	1182	58.0	857	42.0	2039
1993	892	57.7	657	42.3	1546
1994	631	57.2	472	42.8	1103

Source: Fiji PSC, 1995:16

Table 7.11 *Total number of staff in the civil service by ethnicity*

Year	Fijian Rotuman	%	Indian / Others	%	Total
1991	9,296	55.8	7,360	44.2	16,656
1992	9,682	56.6	7,429	43.4	17,111
1993	9,631	56.8	7,317	43.2	16,948
1994	9,709	57.2	7,261	42.8	16,970

Source: PSC, 1995:15

Indo-Fijians predominate in areas of retail and wholesale as well as in agriculture, especially cane and rice farming. Nevertheless Fijians have in the last few years made tremendous inroads into these areas as a result of the affirmative action policies of the government. However, there are still aspects of economic development which are still causes for Fijian grievances which have in recent times become basis for political mobilization and conflict. Because the government has always been Fijian dominated, except for a short stint in 1999 to 2000, it had the power to directly address the socio-economic situation of indigenous Fijians through preferential policies. The reaction from Indo-Fijians has usually been negative often labelling affirmative action policies as being "racist."

7.7 Political power

Since independence in 1970 political power has always been in the hands of the indigenous Fijians. The first Prime Minister was Ratu Sir Kamisese Mara, an Oxford educated Fijian paramount chief who ruled for 13 years until his Alliance Party lost the election in 1987. The Fiji Labour Party-National Federation Party Coalition won the election and Dr Timoci Bavadra a commoner Fijian became prime minister. The coalition lasted a month when the military, under the then Lt Colonel Sitiveni Rabuka, staged a military coup in support of Fijian nationalist agitation against the largely Indo-Fijian government. Since then political power remained in the hands of indigenous Fijian political parties

until 1999 when the Fiji Labour Party once again achieved victory at the polls prompting another nationalist coup a year later in May 2000. Again a Fijian political party, the Soqosoqo Duavata ni Lewe ni Vanua (SDL) in coalition with the nationalist Matanitu Vanua Party took over political power after the 2001 election.

Fijian political aspirations have been largely driven by the notion of protection of indigenous values through the dictum *paramountcy of Fijian interests*, which argues that as the indigene Fijians have the automatic right to perpetual political power. In addition to this are socio-economic grievances and distrust of Indo-Fijians to rule over them fairly. Thus, whenever political control shifted from their hands there was a tendency to mobilize politically to reclaim lost power and twice this had led to coups. The use of force to overthrow elected governments has been justified as serving the interests of the indigenous population.

7.8 Relevance of the ILO Convention 169

A number of factors need to be taken into consideration when assessing the relevance of Convention 169 to the Fiji situation.

Assessment of the socio-economic situation, especially in the area of employment and business shows that while Indo-Fijians are more dominant in the corporate sector Fijians generally dominate in the public service and are on par with Indo-Fijians in various occupational categories. The affirmative action policies of the government over the years have helped to consolidate a Fijian middle class whose professional and entrepreneurial skills are quickly matching those of other ethnic groups. The 1997 UNDP research on poverty found that the average income for indigenous Fijians was lower than that of Fijians but half the Indo-Fijian households was higher than that of Fijian households in the lower 5 (1-5) deciles. However Indo-Fijians tend to dominate the very high income bracket.

Politically Fijians have always dominated political power. With their numerical superiority now assured for the future as a result of continued migration of Indo-Fijians abroad, future political supremacy of Fijians is more or less guaranteed. While Fijians lag behind in various economic activities, they are not economically oppressed or forcefully marginalized. They are also far from

being politically oppressed given their dominance of politics as well as their own cultural institutions. Although there have been acts of injustice done to Fijians in the past such as alienation of their land, attempts have recently been initiated to address this. A lands claim tribunal will be set up to look into land claim matters. Fijians continue to control their own affairs through the Fijian Affairs Board, Ministry of Fijians Affairs, Great Council of Chiefs (GCC), Presidency (who is normally a Fijian appointed by the GCC), Native Land Trust Board and other institutions and socio-cultural processes. In fact over the years indigenous Fijians have been able to achieve many of the aims of the convention, through empowering policy initiatives, affirmative action and unfortunately through the use of force during coups. Thus at one level the provisions of Convention 169 for indigenous empowerment are already being carried out within the Fijian community. At another level, the spirit of the convention which is geared towards marginalized tribal and indigenous groups may not strictly apply to the Fijian situation because of the dominant position.

The use of the convention in the past to promote Fijian interest has been largely due to the different interpretations of Article 1(a). Advocates of Fijian supremacy have identified this section to legitimize not only Fijian empowerment, beyond that, Fijian hegemony. Article 1 can be interpreted liberally to refer to any indigenous or tribal group, no matter what their situation is. The key to contextualizing and specifying the target groups described in Article (1, 2 and 3) may be found in the second paragraph of the preamble which talks about adopting *international standards* to remove the *assimilationist orientation* of the earlier era. In the field of sociology of ethnicity, assimilation is usually associated with minority ethnic groups or sometimes politically weak majorities absorbed either by force or other means and circumstances to dominant ethnic groups or social systems. Many minority indigenous and tribal groups have become both minorities as well as politically disempowered in their own countries while in some cases the indigenous are still the majority but are significantly powerless in the face of hegemonic economic, political and military domination by others.

Furthermore, the preamble refers to the target groups thus: *These peoples are unable to enjoy*

their fundamental human rights to the same degree as the rest of the population of the State within which they live, and that their laws, values, customs and perspectives have often been eroded.

In Fiji the indigenous Fijians still enjoy political supremacy and full political rights and are not assimilated into an oppressive culture, although over the years some extreme nationalists often referred to Indo-Fijians as being oppressive. The Indo-Fijian culture has historically developed separately but does not pose any threat whatsoever to the marginalization or destruction of Fijian culture, although there has always been a sense of cultural supremacy of Indo-Fijians over Fijians. Indo-Fijians often stereotype Fijians as lazy and stupid *jungali* (bushmen) while Fijians stereotype Indo-Fijians as cunning, selfish and greedy. The co-existence of the two cultures, despite their differences has had the potential to strengthen rather than destroy each other.

The indiscriminate use of the ILO Convention 169 by Fijian nationalists to justify political supremacy can be attributed to the lack of clarity of the provisions of the convention leaving much to be assumed. While it identifies the *indigenous* and *tribal* as target groups it does not clearly stipulate what sort of indigenous or tribal peoples are referred to. Thus either people take the definitions of these terms at face value or carefully search the other clauses of the convention for clarity.

7.9 Other minorities in Fiji

Minorities in Fiji are collectively categorized and referred to as Others or General Electors. A minority group is defined by UN Rapporteur Capotorti as:

*a group numerically inferior to the rest of the population of the state, in a non-dominant position, whose members – being nationals of the state – possess ethnic, religious or linguistic characteristics differing from those of the rest of the population and show, if only implicitly, a sense of solidarity directed towards preserving their culture, traditions, religion or language.*²³

This definition is very similar to the ILO 169 definition of indigenous and tribal groups. While

²³ United Nations. 1991. *Study on the Rights of Person Belonging to Ethnic, Religious and Linguistic Minorities*. New York: United Nations. UN Sales No. E.91, XIV, para 568.

one talks of indigenous and tribal groups another talks about minorities. Some minorities are indigenous and tribal and some are not. One would assume that there is commonality in perception and principles within and between the various UN agencies including the ILO especially in relation to the common aim of protecting the minority and vulnerable groups including the indigenous and tribal groups.

However, a significant feature of the minority groups in Fiji is that they are not indigenous to Fiji nor are they tribal groups with original socio-cultural roots in the country. They are mostly descendants of migrants from various parts of the world such as Britain, Europe, Asia (especially India), Pacific Islands and other places. Interestingly, many of them have Fijian maternal blood and are not officially classified as indigenous Fijian, except if they are formally accepted and registered by the mother's *mataqali* (extended family group) in the *vola ni kawabula*, the Fijian land and population register kept by the Native Lands Commission.

The minority groups in Fiji make up about 43,000 or 5 per cent of the population. These groups are listed in Figure 7.12.

Table 7.12 List of minority communities and brief historical background.

Community	Brief Background
Asian	This is a very small minority, which consists of Filipinos, Burmese and other Asians who have taken up Fiji citizenship. They are mostly professionals.
Banabans	Mostly live on Rabi Island. Others live in various urban centres around Fiji. They were relocated to Rabi in the 1940s after their homeland, Ocean Island (in Kiribati), was used for phosphate mining.
Chinese	The 'first wave' arrived in the early 20 th Century and the 'second wave' arrived in the 1980s and 1990s. They are mostly businessmen and commercial farmers.
European	Some have been in Fiji since the 1800s and others came later. Europeans are mostly involved in business and professional occupations.
Gilbertese	Small communities of Gilbertese have been in Fiji for several decades. They have largely been 'invisible' from mainstream national life.
Melanesian	They are descendants of labourers forcefully brought to Fiji to work in plantations during the 1800s 'blackbirding' era. They largely live in communities around the main urban centres and also some rural areas.
Part-European	These are those of mixed European and Fijian descendants, usually of Fijian matrilineal linkage.

Community	Brief Background
Part-Chinese	These are those of mixed Chinese and Fijian descendants, usually of Fijian matrilineal linkage
Rotuman	Sometimes classified as 'Fijians' and usually accorded the same privileges as Fijians.
Samoan	Most have been in Fiji since the early 1900s and live in isolated small communities around Fiji. Samoans who came to Fiji two centuries ago have been absorbed into the Fijian community over the years.
Tongan	Tongans have been in Fiji for a number of centuries and have been absorbed through inter-marriage and cultural mix over the years. However, some of the late-comers now live in isolated communities.
Tuvaluan	Many live on Kioa Island and some live in isolated communities around Suva.
Wallis and Futuna	Many of these live in communal settlements such as the one in Tamavua. Many have been gradually absorbed into the Fijian community through marriage.

Source: Ratuva (2000)

The most economically prosperous and politically powerful of these are the Europeans, Part-Europeans, Chinese and Asians (such as Burmese and Filipino) while the rest are largely marginalized groups. These marginalized groups have a number of common characteristics:

- They have been in Fiji for periods ranging from a century or more to a few decades only, but are numerically inferior to the rest of the population.
- Most of them possess ethnic and cultural characteristics, which make them different from the rest of the population, despite years of social interaction.
- Some of them are slowly *disappearing* as a result of absorption through marriage and cultural assimilation into other communities.
- Most of them have been deprived of political recognition as distinctive ethnic groups in their own right as a result of their inferior numerical status and weak political bargaining position. They have been collectively labelled simply as *Others* or *Generals Voters*.
- Most of them have been economically underprivileged as a result of lack of development policies targeted specifically towards their particular needs. Due to political and economic neglect, many like the Melanesians are entangled in the vicious cycle of poverty.
- Most are landless as a community and continue to depend entirely on the generosity of some Fijian landowners, churches and other organizations, which provide them with

land. Lack of land security contributes to their socio-economic marginality and vulnerability²⁴.

Because the convention focuses on indigenous peoples, it does not cover the plight of migrants who were indigenous elsewhere (such as Solomon Islands) and resettled in Fiji. Their situation in terms of economic prosperity, political power and social status is generally inferior that that of indigenous Fijians. While some integration has taken place, many still live in isolated communities around Fiji and maintain communal identities which have kept them distinct. It is important that the Convention 169 also address the plight of such people.

7.10 Case study: Kiribati

About 98 per cent of the population of Kiribati is classified as indigenous I-Kiribati. The other 2 per cent, as Figure 13 shows consists of minority groups such as Tuvaluans - 0.4 per cent; European - 0.12 per cent; Part-Kiribati-Tuvaluan - 0.9 per cent; Part-Kiribati with others - 0.6 per cent; and other ethnic groups - 0.3 per cent. The I-Kiribati population shares a common language with slight variation from locality to locality.

Apart from being the demographic majority the indigenous I-Kiribati are also politically and economically dominant. They control most of the land and resources and there is virtually no competition over control of these from the other ethnic groups.

Table 7.13 Population distribution in Kiribati in terms of ethnicity, 1995

Ethnic group	No.	%
I-Kiribati	75,901	97.7
Tuvaluan	273	0.4
European	119	0.2
Part Kiribati-Tuvaluan	695	0.9
Part Kiribati-Others	452	0.6
Others	241	0.3
Not stated	13	0.01
Total	77,658	100

Source: Secretariat of the South Pacific Community, 1995.

The requirements of the convention are already taking place. The I-Kiribati people have total control of the state, economic development

²⁴ See Ratuva, S. 2005. *Ethnicity, National Identity and Church Unity: The Case of Fiji*. Suva: World Council of Churches.

policies and socio-cultural institutions. There is a major programme by the government to increase people’s consciousness and appreciation of their culture through cultural education in schools and public awareness programs. The social security programmes such as micro-finance and health care are largely targeted towards the I-Kiribati. These programmes already fulfil the provisions of the convention and there is no need for further compliance. In this sense Convention 169 does not really apply to Kiribati.

7.11 Case study: Solomon Islands

About 94 per cent of the population of the Solomon Islands is indigenous Melanesians who speak about 100 different languages. The rest of the population consists of Polynesians - 3 per cent; Micronesians (from Kiribati) - 1.2 per cent; Chinese - 0.1 per cent, European - 0.16 per cent; mixed blood 0.7 per cent and others 0.1 per cent. The population distribution in terms of ethnicity is shown in breakdown is shown in Figure 7.14.

Table 7.14 Solomon Islands population distribution by ethnicity, 1999

Ethnic group	Number	Percentage
Melanesians	386,745	94.4
Polynesians	12,257	3
Micronesians	4,906	1.2
Chinese	464	0.1
Europeans	669	0.16
Mixed	2,870	0.7
Others	435	0.1
Not stated	696	0.17
Total	409,402	100

Source: National Census Report, 2000.

The Melanesians have remained politically dominant since independence, although the Chinese, despite their small number control a sizable portion of the economy. The minorities such as the Micronesians, Europeans and Chinese are descendants of migrants. The European population first established itself in the 1800s while the Chinese first arrived in the early 1900s. The Micronesians were resettled in the Solomon Islands after the Second World War.

Only the Polynesian community has been in the Solomon Islands since time immemorial. They still maintain a separate identity, language and culture in relation to the rest of the population. Despite their small number they are treated the same as all other citizens. In terms of commercial and professional achievements they are on

average better off than the indigenous Melanesians.

The indigenous Melanesians in the Solomon Islands have control of the political, economic and socio-cultural institutions. The social security and health programmes are largely geared towards the indigenous communities. However, in the recent past there have been political conflict between people from different islands (in particular those from Guadalcanal and Malaita) as a result of competition over land, resources and power. Although there are about 100 languages and sub-cultural differences there is a general philosophy of *wantokism* (one people) which binds the indigenous Melanesians into a coherent social group.

Given the dominant position of the indigenous peoples and the pro-indigenous orientation of the government, the Solomon Islands already fulfils the underlying requirements of the convention and thus does not need to comply with the existing provisions. The convention therefore may not apply in this case. It may not even apply to the minority groups many of whom are migrants.

7.12 Case study: Samoa

The total indigenous population of Samoa is 162,000 which is about 92 per cent of the total population of 177,000. The other officially recorded minorities are part-Europeans (*Afakasi*) who make up 7 per cent of the population and Europeans who make up 1 per cent. These are shown in Figure 7.15.

Table 7.15 Samoan population distribution by ethnicity, 2001

Ethnicity	Number	Percentage
Samoan	162,840	92
Part-European	12,390	7
European	1,770	1
Total	177,000	100

Source: National Census Report and other sources.

The indigenous Samoan category consists of various minorities - such as Tongans, Fijians, Tuvaluans, Solomon Islanders, Chinese and Niueans - who have been assimilated into the Samoan community and culture through inter-marriages over the years and have considered themselves Samoan. The Tongans first came to Samoa in the 1700s, intermarried and have settled

in a number of places, the most notable being the village of Saina. Some still maintain links with their Tongan relatives, although they no longer speak Tongan. The Fijian community was started by a sailor who married into the local community and over the years the descendants established themselves in a village called Aaiofiti. The Tuvaluans, Niueans, Chinese and Solomon Islanders were brought in as labourers in the 1800s by the German colonial officials to work on the copra, cotton and cocoa plantations and have since been absorbed into the Samoan community. The descendants still live in villages such as Solomonafou for Solomon Islanders, Naioniue for Niueans and Elisefou for the Tuvaluans.

These minority groups were so small that they were easily absorbed through marriage into the Samoan community. They now consider themselves Samoans, speak Samoan rather than their original languages and also have access to *matai* and land titles including the associated privileges. The indigenous Samoan community is not deliberately marginalized by any more powerful group nor is their human rights abused. The social security policies including micro schemes are largely geared towards them. They are the politically, culturally and economically dominant group and the requirements for empowerment and control of cultural institutions are already in place. For this reason the current provisions of the convention does not really apply to Samoa.

7.13 Case study: Vanuatu

As shown in Figure 7.16, 98 per cent of Vanuatu's population consists of the indigenous Ni-Vanuatu people. The small minorities consist of part Ni-Vanuatu - 0.22 per cent; other Melanesians (such as Fijians and Solomon Islanders) - 0.11 per cent; Polynesians-0.06 per cent; Micronesians - 0.03 per cent; Europeans - 0.77 per cent; Chinese-0.15 per cent; Vietnamese-0.04 per cent and others-0.07 per cent. There is a good mix of minorities although the numbers are very small.

Table 7.16 Vanuatu population distribution by ethnicity, 1999

Ethnicity	Number	%
Ni-Vanuatu	183,919	98.4
Part Ni-Vanuatu	410	0.22
Other	202	0.11
Melanesians	118	0.06
Polynesians	68	0.03
Micronesians	1,448	0.77
Europeans	277	0.15
Chinese	87	0.04
Vietnamese	149	0.07
Others		
Total	186,678	100

Sources: National Census Report, 2000

The Ni-Vanuatu population consists of many tribal groupings which speak more than 100 different languages. Because of the diversity of languages spoken a common pidgin dialect called *Bislama* is officially used to facilitate communication. The indigenous Ni-Vanuatu population is also politically dominant and still maintains its cultural institutions and traditional norms which define its identity in the modern world.

In recent years Ni-Vanuatu local communities, with the support of the government, have taken the initiatives to revive some traditional means of socio-economic exchange through the formation of the traditional banks, establishment of customary educational institutions and consolidation of local governance and leadership institutions. These are aimed at preserving Ni-Vanuatu identity, mobilizing people towards redressing socio-economic problems and ensuring effective adaptation to the modern changes. These are all in line with the ILO aim of moving towards empowerment and cultural self-determination.

Because of their dominant demographic and political position the indigenous Ni-Vanuatu do not experience any human rights abuse or marginalization by more powerful ethnic groups. The most economically vulnerable Ni-Vanuatu are usually the rural poor, compared to the educated Ni-Vanuatu and European urban elites who often make policies from a *distance*. Although Europeans and other minorities tend to have ethnicist perception of Ni-Vanuatu as *inferior*, this is *balanced out* by the fact that the Ni-Vanuatu people have total control of the state. In the light of these factors the ILO convention 169 may not really apply to the indigenous people of Vanuatu.

7.14 Summary: ILO and indigenous peoples in the Pacific

- For the five countries studied the indigenous communities constitute the demographic majority. The proportion of indigenous population is Fiji 52 per cent, Kiribati 98 per cent, Samoa 92 per cent, Solomon Islands 94 per cent and Vanuatu 98 per cent. Except for Fiji all the other countries have indigenous populations of more than 90 per cent. Fiji's case is unique because between 1946 and 1996 the indigenous population was a minority and since the 1990s, there has been a dramatic decline in the Indo-Fijian population and a corresponding increase in the indigenous Fijian population. The current trend in Fiji shows that Fijian numerical superiority is bound to consolidate and increase more in the future.
- The indigenous communities in the Pacific control state power and in many cases, except for Fiji, do not have any political competition from any of the minority communities.
- While the dominant group in all the five societies is indigenous, the minorities are largely descendants of migrants. However, their social, political and economic statuses in the respective countries differ considerably. For instance in Samoa, the minorities have been totally absorbed into the Samoan community and are now considered Samoan. In the case of Kiribati the largest minority are the Tuvaluan and part-Tuvaluan, a result of the close historical association between the two communities. They were once part of the same country (Gilbert and Ellice Islands) under British rule. In Vanuatu and the Solomon Islands the minorities are still considered different from the indigenous people but may have access to land and other customary privileges through marriage. The minority ethnic communities in Fiji have special political representation through reserved seats in parliament unlike the other four island states where communal representation is not part of the political system.
- Control of state institutions by the Pacific indigenous peoples have enabled them to devise policies which would further reinforce their dominance such as affirmative action policies in Fiji, cultural revival initiatives in Vanuatu and Kiribati or reform of traditional institutions in Samoa.
- The social security and social protection measure in the countries concerned are largely geared towards the indigenous population. For instance in Vanuatu the revival of traditional currencies and customary means of exchange as well as the operations of micro-finance are largely geared towards addressing the socio-economic needs of the indigenous Ni-Vanuatu population. In Fiji considerable government development and social security initiatives in the forms of affirmative action and micro-finance schemes have helped the indigenous Fijian community improve some of its socio-economic situations. The same could be said about the situations in Kiribati, Samoa and Solomon Islands where the state policies on social security are generally geared towards the indigenous people.
- In all the countries studied there is a disparity in socio-economic wealth between the poor sections of the indigenous community and the educated urban elites. The rural poor are usually the most disadvantaged and are most likely to retain aspects of traditional customs to cushion the effects of globalization. Some members of the minority communities are also disadvantaged and their problems are often the responsibility of the state.
- The situations in the five countries show that the conditions of the indigenous peoples have already been actively addressed by the largely indigenous states a situation which already fulfils the spirit of the convention. Although there are still problems such as poverty, these are not direct results of deliberate policies of ethnic marginalization but due to other reasons such as the lack of resources, weak governance mechanisms, lack of productive capacity, amongst other things. These are areas which the indigenous governments will need to look at as part of their long term development approach. The provisions of the convention which seek to protect and empower indigenous groups do not really apply to the Pacific indigenous communities studied because they are

overwhelming majorities, control the state and have firm control of their cultural institutions.

7.15 Brief analysis and recommendations

- The ILO Convention 169 needs to be much clearer on the categories of indigenous peoples it is referring to. There are different contexts of indigenous peoples which need to be understood. In some cases, as in the Pacific they are the demographic majority and the politically and culturally dominant groups while in some cases the indigenous population may be the oppressed and marginalized minority struggling to empower and liberate themselves from the yoke of neo-colonialism and domination by more politically and culturally dominant groups. In other cases some sections of the indigenous population may be responsible for undermining the rights of their own people as a way of maintaining power and control of resources. Indigenous elites with particular political and economic motives may use the indigenous discourse, institutions and name to further their interests. Abuse of human rights of vulnerable indigenous peoples by powerful members of the indigenous elites is common in many places in the world. Still in other cases, indigenous groups may be responsible for acts of human rights violation against migrant communities.

These different contexts of indigenous peoples need to be understood and must be reflected in the convention. There should be explicit mention of the particular contexts of the indigenous peoples being targeted in the convention rather than making a sweeping generalization, as is the case now, which can be interpreted in many different ways. This can lead to situations similar to Fiji where the convention has been interpreted by Fijian extremist nationalists to legitimize the violent overthrow of *non-indigenous* democratic governments and subjugation of non-indigenous populations. The way the convention is framed can easily be read to mean that all indigenous peoples suffer the same fate of being marginalized, forceful assimilation into a dominant culture and suffering human rights abuse.

It is recommended that the convention recognizes the diversity of the indigenous situations and identifies the specific conditions to which the convention applies. This will help avoid the ambiguities and possible misrepresentations.

- A significant issue which the convention deals with is that of non-discrimination and equality, especially in relation to political rights, socio-economic status and gender. However, this is framed only in terms of the broader external relationship with other groups rather than within the indigenous communities themselves. In the Pacific in particular many of the cases of gender discrimination and political domination are practiced by more powerful indigenous groups on their own people. This also needs to be addressed in the convention to ensure that the interests of the vulnerable members of the indigenous community are protected from sections of the indigenous community who wield greater political power.
- The convention is silent on the fate of indigenous peoples from other places forcefully resettled as labourers elsewhere. In Fiji and Samoa the minority Melanesian population consists of descendants of labourers who were *recruited* during the *blackbirding* period of the 1800s to work on the plantations. Many of these groups are small and extremely vulnerable. In the case of Fiji, they are landless and live in very marginal socio-economic conditions. There should also be provision in the convention to protect these groups.
- Within many Pacific communities the notion of *indigeness* continues to be a cause for ideological contestation. In Fiji the attempt to define who an indigenous Fijian is became a big political and legal issue in the late 1980s and 90s. Those with matriarchal Fijian links were considered *non-Fijians* except if one was listed in the *vola ni kawabula* or Fijian lineage and land register but this would need the consent of their mother's relatives. The conflicts in the Solomon Islands, Vanuatu, Samoa and Kiribati manifest the continuing tension between groups within the indigenous community competing for resources and legitimacy and the need to address the socio-economic and political problems

existing in these communities. The threats to indigenous interests and rights in the Pacific consist of both external and internal factors. It is recommended that both these sources of threat should be addressed by the convention rather than just focusing on the *external* threat.

- The social security provisions of the convention should aim first and foremost at the weaker and most vulnerable members of the indigenous community. Some members of indigenous communities are more privileged than others and to frame them all together as a homogenous group has the effect of *camouflaging* the situation of the disadvantaged.
- The convention tends to focus on the preservation of indigenous culture and tradition in a static *museum piece* sense. Treating indigenous peoples in a patronizing

way only weakens their position in the contemporary globalized situation. Instead of simply focusing on the notion of preservation the convention should be more innovative. It should encourage cultural innovativeness and how indigenous cultures can be harnessed and utilized creatively and positively to ensure adaptation and meaningful survival in the modern world. This could help the indigenous peoples not only revive their cultures it would also enable them to transform their socio-economic situations in an empowering way. The examples of how indigenous Pacific communities have been able to utilize aspects of their cultures to generate income through micro scheme, as shown in the ILO study on tradition and social security, is a case in point.

Chapter 8 Gender Issues and Social Security in Vanuatu

Executive summary

There is a growing concern about inadequate social protection for workers in the formal sector and for the Pacific Island countries the need to extend the protection to those who are not previously covered, particularly women. Current schemes in the five project countries studied do not cover the majority of the population and are confined to the formal sector.

Income insecurity is high in the informal sector and is due to the lack of opportunity that exists as a result of the lack of economic growth in the formal sector. Currently a large section of the workforce in the Pacific countries is outside the formal wage sector and is not protected by labour or social protection. Due to the specific structural and economic challenges faced by the Pacific Island countries increasing number of workers will continue to be absorbed into the informal sector.

In the absence of formal systems of social security, the working poor in the Pacific rely on the informal systems of social protection as well as their own resources such as the use of savings. Informal systems of social protection include support from relatives in the form of remittances or social or traditional networks called *kerekere* in the Fijian community, the *faá* Samoa in the Samoan society or *wantok* as in the case of Solomon Islands, Vanuatu. These services are usually inadequate and uncertain especially in times of economic crises such as happen in the Pacific with the ethnic tensions that have occurred in Fiji, Solomon Islands and Vanuatu.

An integral part of the International Labour Organisation's mandate is the promotion of social justice. The protection of women workers and the promotion of equality between men and women in employment have been areas of longstanding concern. The 1999 Decent Work Agenda, to which all the project countries are party, reaffirms these commitments. Other international, regional and national instruments adopted by the project countries in support of gender equality include CEDAW, the Beijing Platform for Action and the Pacific Platform for Action. Although the principle of equality of opportunity and treatment

between men and women at work is widely accepted in most countries in the world and in other sectors, in practice inequalities persist on a global basis.

It is important to underline that the status of women in the Pacific and the conditions of their lives have been shaped by a broader range of forces, notably their gender, ethnicity and social class, and the broader social, political and economic environment. Similarly, the legal status of women, in particular their position in respect of employment legislation, is crucially influenced by such factors. It is therefore important to understand these factors for a comprehensive analysis of the status of women in the Pacific. This includes the institutions, legislation and programmes in place to support the promotion of gender equality which determines their status and position in society. Education impacts directly on the status of women, the types of jobs available to them and their mobility within the employment sector.

Equal treatment in social protection, similar to programmes and activities implemented in any other sectors, assumes that men and women are in the same employment situations regardless of sex. Therefore measures for promoting equality in social security need to be developed based on an accurate assessment of the needs of men and women and a thorough assessment of the impact of social protection and social security systems on their positions.

The aim of the project is to improve the coverage and efficiency of social security systems in five selected countries in the Pacific sub-region including Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu, by developing and implementing national action plans for the extension and improved governance of social security systems and by conducting joint capacity building activities at the sub-regional level. *Based on a gender analysis and a gender needs assessment of social security, the project will develop social security policy which is more responsive to gender-specific needs and promotes greater gender equality.*

This Chapter has to a large extent drawn extensively from the researches undertaken for the five project countries for the formal and informal sectors which also identified, in order of priorities, the social security needs within each country. The Report provides an overview of the current status of women in the workplaces and discusses to some extent the major contributing factors.

Based on the findings of informal/formal sector reports this Report identifies specific gaps based on these studies and makes recommendations for further gender analysis to be carried out on the different work patterns of men and women, the demographic changes and the changes in the structure of the labour markets.

A number of non-conventional social security schemes are in place that women have established to meet contingencies. There is a need to research and document these various schemes and devise ways to support such schemes with the development of policies and legislations and designing specific training to build the capacities of women and stakeholders involved in such schemes.

The opinions expressed in this paper are those of the author and does necessarily reflect the views of ILO.

8.1 Introduction

Social protection and social security provide an agenda primarily for reducing vulnerability and risk of low-income households with regard to basic consumptions and services. Analyses of current schemes reveal that they target the poor and vulnerable members of a society including health status, age, differences between formal and informal economy. Except for maternity benefits that benefit women directly, gender analysis has rarely been used to assess the various impacts of such schemes. Existing schemes in the Pacific such as the Provident Fund were introduced when the gender issues had not seriously entered the discourse at national or regional levels, resulting in minimal attention given to addressing the issue of gender inequality in these schemes. The Social Security project in the Pacific provides an opportunity to integrate gender equality into the various schemes that may be proposed for the countries of the region.

Gender refers to the social construction of the different roles and responsibilities assigned to men and women by all societies around the world. These often reflected a division of labour based on economic and biological needs and deemed effective at a particular point in time. They then became embedded in cultures and traditions overtime. Even though economies and societies are in continual evolution, some practices persist and interact with new economic and social events that often lead to a lack of social cohesion in communities. These result in increasing gender inequalities in access to and benefits from resources available to a community. By and large, universally it is women that are usually the most disadvantaged.

Recent decades have seen significant efforts by all countries, to improve the status of women. This has been achieved particularly through their economic empowerment with access to education and training, paid wage employment and more women in business. Nevertheless, inequalities persist and as a result, women receive less income for their labour and acquire less wealth than men. They tend to be the majority amongst the poorest in most societies, especially those solely responsible for the livelihood of themselves and their children. Not all gender inequality is narrowly related to economic issues and there is today the emergence of gender issues of particular relevance to men, for example HIV/AIDS, fatherhood, men's health, higher occupational risks faced by men in mining, for example.

Social protection systems developed during the past decades in many countries tended to reflect certain models, based on formal economy structures and occupational structures of the labour market. In terms of gender, they often mirrored a male bread winner family model, with women as secondary earners. Women's contribution to society through care of families was not factored in, resulting in inequalities for example in pension entitlements. In recent times, the labour market structure and family structures have been changing significantly with women accessing jobs and occupations previously the domain of men. Increasingly, the sole male bread winner and nuclear family represent a minority of family types within the variety of family set ups today in many countries. These have also been influenced by rural to urban drifts and emigration. These changes have significant implications for social protection systems if they are to be relevant

for the population as a whole, viable, and not contribute to perpetuating gender inequalities. Furthermore, the issue of extending social protection to both men and women not covered at all as they work is the major challenge today, especially as the informal economy is very large in many countries.

Addressing the high levels of poverty amongst women and children has been recognised by the international community as critical to the economic and social progress of nations. Therefore, many efforts are currently directed at the economic empowerment of women. Social protection systems in the informal economy which operate with a gender lens can be powerful instruments for introducing greater economic security to the poorest in our societies and provide a basis of stability and long term prosperity for nations as a whole. The ILO Social Security project in the five Pacific countries (Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu) is working along these lines.

The report acknowledges and underlines, based on other studies and existing evidence, that women are greatly disadvantaged both in the formal and informal economy. As a result they are more likely to be excluded in greater number, as compared to men, from social protection, or in cases where available, social assistance. These situations are the product of limited economic growth and the broader social, political and economic environment.

The first part of the report deals with the overview and briefly discusses the origin of gender equality and the various international conventions and regional declarations and commitments that exist, with specific reference to social security framework, to advance gender equality within the Pacific. This includes a brief gender analysis of the legislation, policies, programmes and budgets, of two countries, in support of gender equality and in the context of social security. The third part is a brief outline of the formal and informal economies and the social security implications this has on gender equality. An attempt is made, based on the findings of other specific commissioned reports, preliminary discussions during the country visits and the gender workshops undertaken in the project countries, to analyse from a gender perspective the social security schemes that currently exist.

Part three looks at the roles of ILO's social partners in social security and makes recommendations for implementation for social protection initiatives that are gender responsive.

8.2 Overview

Social Security in the Pacific Island countries is generally available only to people in formal employment and who are obliged or entitled to participate in a variety of social insurance schemes. These schemes provide social insurance cover for retirement, work accidents, health, and death. The schemes are funded by contributions from employers, employees or a combination of contributions from both and managed by provident funds. For most of the Pacific Island countries the provident funds operate as de-facto social security or social assistance systems in the sub-region. There are however, serious limitations because provident funds are in essence individual savings schemes managed by the fund with the effect of redistribution or social solidarity limited as it entails little or no income redistribution or social solidarity.

In the absence of unemployment benefit or any organised form of social assistance, the provident funds also function as a social safety net that meet the immediate need for cash for the people who experience unexpected adversities such as economic crises or social unrest. These withdrawals from the fund are, however, at the expense of savings for retirement. This resultant limited retirement benefits results in more retired workers who have to rely on traditional family and community support. This family and community support is often provided by females who are also expected and responsible for looking after the aged and the family. This places additional burdens on the women whether they are working in the formal sector or as unpaid workers in the informal sector. This traditional support is however, fast breaking down as society transforms into a modern society. The continuous rural-urban migration together with an increasingly monetised economy places further strain on cultural practices and traditional support systems.

8.3 Social security project in the Pacific

This project aims to improve the coverage and efficiency of social security systems in five selected countries in the Pacific sub-region

including Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu by developing and implementing national action plans for the extension and improved governance of social security systems, and by conducting joint capacity building activities at the sub-regional level. *Based on a gender analysis and a gender needs assessment of social security, the project will develop social security policy which is more responsive to gender-specific needs and promotes greater gender equality.*

Social security systems in the Pacific sub-region are at different stages of the development and are faced with major challenges both in terms of policies and implementation.

Social security is not only a basic need; it is a basic human right. However, in the countries in the Pacific sub-region, only limited numbers of people have access to limited extent of protection by social security systems. The lack of adequate social security represents one of the greatest challenges facing the countries in the Pacific. In the absence of comprehensive social security cover by the national system, the ultimate safety net is still provided by the traditional social practices and family support, which tend to weaken as the society transforms into a modern one. The absence of well-functioning social security systems is one of the major causes of poverty, ill health and high mortality.

From a gender perspective the project was constrained in many respects and had the effect of limiting a proper gender analysis of the needs of men and women, the division of labour between men and women, the constraints and/or opportunities, particularly the discrimination experienced by women, directly and indirectly. The specific country researches on the formal and informal sectors identified the needs and ranked in order of priorities the social security schemes of the samples population. However, as acknowledged by the specific country reports the sample surveys were biased towards males and may have affected the outcome of the surveys.

Similarly there is a need to further analyse the division of labour especially with regard to fisheries and agricultural activities. Surveys show that most men as compared to women are engaged in these two sectors. Specific surveys, however, need to be carried out to determine other fishing activities, carried out by women, are captured in these classifications. These activities

include both pre-harvest and post-harvest such as processing, distribution and marketing and where women are mostly concentrated but are not seen as important and therefore become “invisible fisher folks”. As a result they do not appear in the official figures and statistics of island countries because the emphasis is usually on cash-based fishing such as outer reef offshore fishing and for export or other lucrative commodities such as beche-de-mer which are predominantly the domain of men.

This is the same for the agricultural sector where the tougher physical jobs of clearing land for planting are undertaken by men. Activities such as looking after gardens as in Fiji, for example, where the moulding of yams and tending to vegetables and harvesting of crops are all done by women are not taken into account. In many of these cases because of the patrilineal nature of such societies the fields and plantations are seen as belonging to men thus farming is their work and responsibilities and as such will be reflected in the kind of data collected.

This report will draw, to large extent, from the specific country reports undertaken for the formal and informal sectors and gender analysis is based on the finding of the surveys carried out.

8.3.1 Coverage problems

Similar to other developing and under-developed countries, large parts of the population in the Pacific Island countries such as those working in the rural and urban informal sectors are not at all or not adequately covered by social protection. The major constraints to the growth of social protection in these countries include:

- Existing programmes mainly cover workers in the formal sector with regular jobs, who account for a fraction of the labour force. Therefore the pool of potential contributors and beneficiaries is limited for contribution-based schemes. Also, due to the absence of fiscal tradition in many of these countries, the revenue base which might be used to finance universal benefits is narrow;
- The scope and level of social security benefits are also inadequate. In most Pacific Island countries, national provident funds and workers' compensation are the only available social security benefits, which

were implemented in the pre-independence days. Other types of much needed benefits such as health care, sickness, maternity, unemployment benefits are not available. Furthermore, the level of benefits provided from the existing schemes is not sufficient to provide adequate protection for the workers and their families;

- A straightforward savings scheme of the provident fund type fails to provide guaranteed national minimum benefit, as there is no pooling of risks. The members of the provident funds at retirement usually have no option but to receive their benefits as a lump-sum. Lump-sum benefits are vulnerable to pressures for speedy consumption by the recipients and their extended families;
- Workers Compensation schemes are still based on employers' liability, which does not ensure the full compliance particularly by employers of small sized enterprises. Compensation is usually made as one-off lump sum payment only in the event of accident or disease directly resulted from work (excluding accidents during commutation), and benefits for rehabilitation, prevention and promotion of occupational safety and health are mostly not provided;
- Basic medical care is provided free by the Government for all nationals and includes hospital confinement, professional services, laboratory examinations and medicine. However, because of the inability of Government to allocate enough budgets, the quality of public health services is poor. In most remote islands, people go to clinics that may be staffed only by a trained nurse. Women still depend at childbirth on midwives or traditional birth attendants. Major hospital services at tertiary level such as heart operations and dialysis are only available in one or two hospitals in the capital cities. For emergency cases, evacuation to Australia, Hawaii and New Zealand is possible under the referral system only if a panel of doctors approve the case to be *urgent and treatable*;
- Administrative arrangements for existing social security institutions such as the provident fund and social welfare ministries

to collect contributions and/or pay benefits do not function effectively or efficiently that the scope of the programmes falls far short of meeting the needs of those entitled;

- Another major constraint is largely social and political. In countries as the Pacific it is difficult to promote a greater commitment to solidarity between the haves and have-nots and to get the more affluent, secure workers to push for the extension of social security to the uncovered and poorer sections of the population who are unlikely to be able to pay their own way.

It therefore follows that existing schemes, developed and implemented at a time when gender equality was not a major focus and of concern within the Pacific, did not take into account the specific gender issues that occur due to the different employment conditions and situations of men and women. Under such situations women experience both direct and indirect discriminations. As in the case of Fiji direct discrimination is experienced by women under the Provident Fund withdrawal provisions where there is different treatment of newly married women and men. It can be argued that this is based on the idea that a woman is dependent on her husband, and where it is permissible for women to apply for partial withdrawal of her contribution upon marriage. This facility is not available to newly married men and it can be assumed that this is based on the notion that women, because of the newly and increased responsibility that comes with marriage, the withdrawal is to meet such expenses.

A thorough assessment of the indirect discriminations experienced by women in the project countries is also necessary but due to time constraints, and where the visits were largely concentrated in conducting the one-day gender workshops, this was not possible. Specific examples were cited during the Gender Workshops and anecdotal evidence seems to suggest that such discriminations exist. In Kiribati for example a number of complaints were lodged with AMAK²⁵ by widows who (together with their children) were denied survivors' benefits under the Provident Fund at the death of their husbands. Benefits were distributed amongst the

²⁵ AMAK refers to the Aia Mwaea Ainen Kiribati the national women's NGOs

father and brothers. A major reason cited is the qualifying conditions required to be fulfilled by men and women. In a particular case the decision by the provident fund was upheld by the court based on his nomination before marriage. These situations call for a through analysis of the qualifying conditions that have the effect of discriminating against women and men and are contrary to the stated (*de jure*) provisions of the schemes.

8.4 Economic and structural framework of small island states

A key challenge faced by Pacific Island countries is the *small size of the domestic market*. This diseconomy of scale limits research and development and technical progress since small size inhibits the development of local technologies. Moreover, small domestic markets prevent the emergence of a competitive market and therefore can be expected to experience generally higher prices of inputs and of finished goods. Most Pacific Island states also possess a *small and/or poor domestic resource base* that results in a *narrow range of exports and export markets*. The need for specialization, highlighted by the above characteristics, tends to limit export-oriented domestic output to just a few products and renders it very vulnerable to external shocks and this vulnerability is likely to be exacerbated by a dependence on export markets in just a few countries. In view of the above the Pacific Island states are usually characterized by a *high level of openness to trade, high dependence on foreign aid and are highly vulnerable to natural disasters*.

These factors mitigate against development, and income generation and employment creation in the formal sector is very limited. Annually only one-half of the 17,000 school leavers are absorbed into the labour market, with the residue of about 6,000 either entering the informal sector or joining the growing number of unemployed.

Consequently the growth of social security coverage in the Pacific Island countries is limited both as a function of limited economic growth and the lack of technical knowledge and expertise to develop and design schemes that are relevant to the Pacific Island countries. This is further aggravated when assessing the needs of both men and women from a gender perspective. Gender equality is often assumed with resultant policies and programmes designed as “one size fits all”

and have the effect of producing further discriminatory practices. Applying a gender neutral approach in such given situations gives rise to further inequality because from the outset the socio-economic situations of men and women are often not equal.

8.5 International and regional instruments in support of gender equality in social security

The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), Beijing Platform for Action (BPA) and the Pacific Platform for Action (PPA) continue to be the driving force for the advancement of women’s issues and concerns and gender equality within the Pacific region. These platforms contain commitments to gender equality in the areas of employment and social security

It is important to note, that despite commitments by governments to these various international, regional and national platforms and with some obvious progress identified, overall, gender equality is far from being achieved in all areas including political, social, economic and cultural. The review of the Beijing Platform for Action undertaken in March 2005²⁶ confirms that most of the goals set out in these platforms have not been achieved. Barriers to women empowerment remains and the Pacific island countries are no exception; if anything it is far worse for women because of the structural, economic and fiscal constraints faced by these countries. These situations combined with growing population, political and ethnic conflicts and limited opportunities for economic growth and income and employment creation are some of the impediments currently faced by Pacific women and indeed the world over. Women, despite their contributions to the economic development, continue to face discriminatory practices in the areas of employment. Discrimination in hiring, remuneration, promotion, training as well as inadequate sharing of family responsibilities and inflexible working conditions continue to restrict employment, economic and other opportunities for women.

²⁶ CSW meeting to review the Beijing Platform for Action was held in March 2005.

8.5.1 **Convention on the elimination of all forms of discrimination against women**

At the international level the recognition and the articulation of the *rights of women*, as critical to the welfare of any nation, had its origins in the adoption of the Nairobi Forward-Looking strategy in 1985. Successive conferences were held to further promote gender equality, culminating in the Beijing Conference in 1995 and the subsequent 29th General Assembly meeting that was held in 2005 to review the progress made in the implementation of the Beijing Platform for Action endorsed in 1995.

The United Nations General Assembly in recognition of women's rights as human rights adopted the Convention on the Elimination of All Forms of Discrimination (CEDAW)²⁷ in 1979 which came into force in October 1981. The Convention defines what constitutes discrimination in the areas of social, political, economic and cultural context. It safeguards the reproductive rights of women and obligates the countries that have ratified the Convention to put in place measures, in the form of legislations, judicial and administrative that will contribute to the elimination of these discriminations and bring about gender equality for all.

With specific reference to social security, *Article 11, section (e)* of the Convention deals with employment that states, amongst other things, the State Parties shall take appropriate actions to eliminate discrimination against women in the area of employment inter alia "the right to social security, particularly in the cases of retirement, unemployment, sickness, invalidity and old age and other incapacity to work and the right to paid leave. *Section (f)* guarantees "the right to the protection of health and to safety in working conditions, including the safeguarding of the function of reproduction".

Article 13 states that women are to be accorded equal rights to benefits that accrue to families, either in their own rights or as parents, married or unmarried, such as children's allowances, housing allowances, public housing, health

insurance or coverage, or other government subsidies or allowances.

General Recommendation 16 of the Convention makes special proposals for women in the informal sector (for example unpaid women workers in family business) and the social security benefits that are available, that State Parties to take necessary steps to guarantee payment, for social security and social benefits to women where they are without such benefits.

All project countries of the Pacific, including the social security project countries, are parties to the Convention. However to-date efforts to address gaps and constraints in relation to women's positions in the workplace have not been consistent within the Pacific Island countries by National Women Machineries (NWMs), Non-Government Organisations and donor partners.

8.5.2 **Beijing platform for action and the Pacific platform for action**

The Commission on the Status for Women (CSW), mandated by the United Nations General Assembly, organised the Fourth World Conference for Women that resulted in the Beijing Platform for Action (BPA)²⁸ in 1995. Twelve critical areas are identified under the platform calling on governments, international organisations, private sectors and Non-Government Organisations (NGOs) to take specific actions to advance gender equality in the specific areas.

Women's participation in both the formal and informal labour markets, over the decades has increased significantly. Whilst most are still engaged in agricultural and fishing activities they have at the same time become increasingly involved in micro, small and medium-sized enterprises and in some countries have become dominant in the expanding informal sector. These new employment opportunities are however, marked by low wages, little or no labour protection and lack of job security and social security. Very few women have broken the 'glass ceiling'²⁹ syndrome and even in such

²⁷ CEDAW as of April 2003 has been ratified by more than two-thirds of the members of the United Nations including Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu.

²⁸ Beijing Platform for Action was endorsed by the five project countries in 1995

²⁹ Glass ceiling is a term used to describe the artificial barriers based on attitudinal or organizational bias that prevent qualified individuals from advancing upward in their organization into management level positions.

circumstances their mobility is confined to only a limited range of jobs. In recognition of this, the Platform for Action under its' *Strategic Objective F.5. "Women and the Economy"* identifies the need to enact, enforce laws and develop workplace policies to address "gender discrimination in workplaces and extend ... employment benefits and social security..." More specifically *Strategic Objective F.6.* calls on governments to "promote harmonisation of work and family responsibilities for women and men."

From the perspective of the ILO, the platform adequately reflects the mandate and interest of ILO and due recognition is given to International Labour Conventions including Section A on poverty, Section F on gender inequality in economic structures and Section I on human rights. Paragraph 168 makes specific reference to the safeguarding and promotion of basic workers rights, including the prohibition of forced labour and child labour including equal remuneration for men and women for work of equal value and non-discriminatory employment.

In preparation for the Beijing Conference, the Pacific region, made up of 22 Pacific Island countries and territories (PCITs), endorsed the Pacific Platform for Action (PPA) which formed the basis of the Pacific region's contribution and participation to the Beijing Women Conference.

The PPA was endorsed in 1994 by the Secretariat of the Pacific Community (SPC) member countries³⁰. It identified 13 critical areas requiring immediate attention and called on the governments of the region and civil societies to make available the necessary resources, both financial and technical, to advance and address these concerns. The thirteen critical areas include: health, education, training, economic empowerment, agriculture and fishing, legal and human rights, shared decision-making, environment, culture and the family, mechanisms to promote the advancement of women, violence against women, peace and justice, poverty and indigenous peoples' rights. Central to these issues is the eradication of poverty particularly poverty with regard to women.

³⁰ Secretariat of the Pacific Community (SPC) serves 22 Pacific Island countries and territories through technical assistance, training and research. Australia, France, New Zealand, the United Kingdom and the United States as founding members are also members.

Although the PPA identifies economic empowerment for women as one of its critical areas, the platform falls short of providing an enabling framework with specific strategic objectives and actions to address social security issues for women and men in the formal and informal sector. This is attributed to the lack of capacities and technical know-how to allow a complete analysis of the employment issues by policy makers, civil societies and non-governmental organisations. Very few Pacific countries, like Fiji, have to-date carried out studies and researches on the legal status of women and with specific reference to the employment legislation. In countries that have carried out such studies, these have been inconsistent due mainly to the lack of specialised expertise in this area. Therefore the extent of discriminatory practices both '*de jure*' and '*de facto*' experienced in the employment sector by both women and men have not been properly analysed and quantified. The lack of strong national women's machinery (NWMs) and NGOs dedicated to the review of such practices facilitates the perpetuation of a condition of gender inequality in the workplaces.

Attention to employment issues in the informal economy poses further challenges due to the lack of data/information, the unregulated nature of the sector and the lack of national indicators to accurately define the sector.

8.5.3 International Labour Organisation and gender equality

Integral parts of the International Labour Organisation are the promotion of social justice, the protection of women workers and the promotion of equality between men and women in employment, which have been areas of longstanding concern. Although the principle of equality of opportunity and treatment between men and women at work is widely accepted in most countries in the world, in practice inequalities persist on a global basis.

The ILO promotion of equality found its origin in the Declaration of Philadelphia. The fundamental principle of equality of opportunity and treatment between women and men has been approached by ILO in three ways:

- 1 As a matter of **human rights** and essential

- condition for achieving effective democracy. The fight against discrimination on the basis of sex is considered a fundamental issue in protecting human rights;
- 2 As a matter of **social justice** and poverty alleviation, by improving women's access to employment and training and their conditions of work and social protection;
 - 3 As a matter of **social and economic development**, by promoting the participation of women in decision-making and in shaping development and labour policies and practices that adequately respond to equality objectives.

Other ILO policy statements concerning women workers and promoting women's rights include:

- The Declaration on Equality of Opportunity and Treatment for Women Workers and the Resolution concerning the Plan of Action with a view to Promoting Equality of Opportunity and Treatment for Women Workers (1975);
- Resolution on Equal Opportunities and Equal Treatment for Men and Women in Employment (1985);
- The Plan of Action on Equality of Opportunity and Treatment of Men and Women in Employment (1987);
- Resolution Concerning ILO Action for Women Workers (1991); and
- Resolution concerning the Promotion of Gender Equality, Pay Equity and Maternity Protection (2004).

The 1975 Declaration constituted ILO's contribution to the 1st World Conference for Women in Mexico held in the same year. The 1985 Resolution was ILO's contribution to the Nairobi Conference, and it called for the intensification of action to be taken to implement the provisions of existing ILO instruments concerning equality. The Resolution outlined a comprehensive set of measures for national as well as ILO action to be undertaken in various areas which included:

- 1 Equal access to employment and training;
- 2 Promotion of the full implementation of the principle of equal treatment for work of equal value;
- 3 Improvement of working conditions;
- 4 Harmonisation of family and job responsibilities;
- 5 Equal treatment in social and security coverage;

- 6 Ensuring the full participation of women in decision making processes at all levels;
- 7 Establishing and strengthening national machinery to promote equality of opportunity and treatment effectively; and
- 8 Improving the database on women.

Other key equality conventions include the ILO Convention on Equal Remuneration (1951, 100), the Convention on Anti-Discrimination in Employment and Occupation (1958, 111), the Convention on Maternity Protection (2000, 183) and the Convention on Workers with Family Responsibilities (1981, 156). To-date most of these Conventions have not been signed by the project countries.

The main purpose of the Plan of Action on Equality of Opportunities and Treatment of Men and Women in Employment (1987) is to ensure that issues relating to equality of opportunity and treatment are systematically included in each stage of the policy formulation, planning, and implementation in all ILO programmes and projects.

Despite these ILO commitments globally gender inequality continues to persist in workplaces. The ILO Pacific Regional office directly responsible for implementing the ILO mandate in the Pacific region is constrained, in terms of resources including financial and gender-specific capacity, to promote gender equality in a number of programmes undertaken by the office.

(i) *Decent work agenda*

The International Labour Conference in 1999 endorsed the Decent Work agenda and the overarching objective of the ILO to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. The ILO Decent Work agenda is guided by four strategic objectives:

- 1 Promote and realise standards, fundamental principles and rights at work;
- 2 Create greater opportunities for women and men to secure decent employment and income;
- 3 Enhance the coverage and effectiveness of social protection for all; and
- 4 Strengthen tripartism and social dialogue.

Gender equality is a cross cutting concern in the Decent Work Agenda and strong efforts have been made to accelerate gender mainstreaming within each of the four strategic objectives with the development of specific gender indicators and targets.

ILO member states in the Pacific sub-region have been active in working with the ILO to develop and implement National Action Plans for Decent Work (NAPDW). The outcomes were presented at the Sub-regional Tripartite Forum on Decent Work held in Auckland in October 2003, which provided an opportunity to consolidate the significant progress in promoting the Decent Work Agenda across the sub-region. In their NAPDW, the following problems have been identified by the ILO tripartite constituents as major Decent Work deficits in respect of social security:

- 1 Limited coverage of social security, in particular for workers in the informal economy (Fiji, Kiribati, PNG, Solomon Islands);
- 2 Inadequate scope and level of social security benefits (Fiji, Solomon Islands);
- 3 Problems of governance and sustainability of social security system (PNG, Solomon Islands).

In response to these deficits, the National Action Plans for Decent work (NAPDW) prescribe the actions for ILO support to the development of a national strategy for extension of social security coverage and to provide technical support for improvements in financial governance, investment policy and administration of social security benefits.

(ii) Minimum social security standards

Social security is the protection which society provides through a series of public measures against the distress that otherwise would be caused by the stoppage or substantial reduction of earnings resulting from: sickness, maternity, unemployment, invalidity, old age, death, widows and sole-parents. It is composed of: social insurance, social assistance, family benefits, provident funds; and the provisions made by employers such as worker's compensation and other complementary programmes.

The ILO Convention 102: Social Security (Minimum standards), 1952 identifies nine main branches of social security which cover most if not all principal contingencies faced by workers and their families during the course of their lives. This includes:

- 1 medical care
- 2 sickness benefit
- 3 unemployment benefit
- 4 old age benefit
- 5 employment injury benefit
- 6 maternity benefit
- 7 invalidity benefit
- 8 family benefit
- 9 survivors benefit

These international, regional conventions and platforms reinforce and acknowledge that sustainable development, good governance and economic growth, eradication of poverty and democracy cannot be achieved without attention being given to gender equality particularly in the social security sector. The Social Security Project, as one of its main goals is to develop a social security policy which is more responsive to gender-specific needs and promotes greater gender equality, provides an opportunity to realise this stated goal. Furthermore, through the project, a number of technical experts have been brought into the region to work on a number of specific areas, which under the existing structure would have not been possible.

8.6 Social security in the Pacific Island countries

Social Security in Pacific Island countries is generally available only to people in formal employment and who are obliged or entitled to participate in a variety of schemes. These schemes provide cover for retirement, work accident, health, and death. The schemes are funded by contributions from employers, employees or a combination of contributions from both and managed by provident funds through tripartite boards of management.

The present social security programs in Pacific countries, like most developing countries, were envisaged to capture a finite group of formal sector workers and ultimately extend the coverage over a number of years. This was facilitated by granting exemptions to various employers or employment categories in the initial legislation and regulations. However, over time it

is evident that in general, these exemptions have not been removed and many of the schemes differ little from their original inception decades ago.

The current social security eligibility extends to employees of the military, civil service and private companies above a prescribed staff size and total payroll. The remainder of the population employed in smaller enterprises, self-employed in the informal economy, and the unemployed or aged rely on private insurance or support from immediate and extended families and the local community. In the short term, it is likely that social security provisions may be extended to include more of the people employed in the formal sector and the self-employed. In the medium term, additional programs of unemployment benefits and social assistance to selected sectors of the population may be possible. The extension of social security entitlements to the entire population will be a long-term goal in most Pacific countries.

The study into the progressive extension of social security eligibility to the wider population needs to examine the options for extension of eligibility to the excluded formal sector workers, and examine the needs of workers in the informal economy and in some cases for overseas migrant workers. The informal economy by its nature is difficult to quantify and the lack of a standard definition and categorization of workers and their distribution has resulted in a limited availability of statistical data relating to workers in the informal economy. This is particularly true in most Pacific countries, many of whom have not completed labour market surveys and rely completely on the limited labour information from population census conducted in five or ten year intervals.

The growth of the informal sector has provided much needed job opportunities for women; however, because of the unregulated nature of the sector, the dual role performed by women as workers with family responsibilities, and the lack of accurate needs analysis of men and women, women continue to be disadvantaged. For both the formal and informal economy women continue to face challenges such as the narrow range of occupations and the lower level of jobs that are available to them as female workers. Consequently this has not led to improved coverage of women workers under the existing social security protection schemes.

8.7 Economic and social conditions of women

It is important to underline that the status of women in the Pacific and the conditions of their lives have been shaped by a broader range of forces, notably their gender, ethnicity and social class, and the broader social, political and economic environment. Similarly, the legal status of women, in particular their position in respect of employment legislation, is crucially influenced by such factors. While it is an undoubtedly a useful and instructive exercise to undertake a focussed gender analysis and assessment of social security, and to develop a social security policy which is more responsive to gender-specific needs and promotes greater gender equality, there is however a need to be mindful of women's political and social status along with the cultural values that underpin this. Understanding the other, non-legal, forces that define the position of women in Pacific Island countries, including the barriers to their equality and advancement, are critical; and in a very practical way, this can also help guide measures such as recommendations for future actions and legal reform³¹.

It is not the intention here to discuss in any depth the linkages between women's legal and social status, except for a few of these fundamental issues; and the dominant ideologies about women and gender relations. Suffice to state that the many anomalies in the Pacific countries current employment conditions for women reflect persisting views about the desired gender division of labour and the subordinate status of women within this. A key feature is the expected domestication of women and the primacy attached to women's reproductive role as caregivers, nurturers and teachers etc; as well as their productive role as subsistence food providers within the family. Both of these roles are undervalued as well as unpaid even though it is such activities that women play a critical role in safeguarding family living standards. The contribution by women in these areas, such as looking after the aged and the young, indirectly contributes to the productive sector of the economy and there is a need to quantify and value this for economic computations.

These dominant ideologies about women and the gender division of labour appear to spill over into

³¹ The duration of employment by the current gender specialist did not permit this broad analysis to be carried out.

the public domain in such a way as to determine, overall, an inferior and disempowered status for women within the national economy of the countries studied. They directly contribute to the limited access women have to employment; the type of categories of work that are open to them; and their higher unemployment levels. Women's disadvantaged access to employment can have significant consequences; for example in the contributions and the consequent benefits that can accrue to them in social security benefits and aggravating the poverty levels that they are in.

Gender based cultural values place limits on women's occupational mobility particularly their promotion to positions of authority or seniority. They facilitate the more intensive, relative to men, exploitation of their labour, and they underline their generally lower incomes and poorer conditions of work. Indeed 'female' jobs are more often than not, low wages/salaries and low status, and a significant proportion engage women in servile capacity: offering some kind of community, public or personal service whether unskilled (domestic work, office cleaning), skilled (clerical work, personal assistants) or professional (nursing and teaching)³². Even in these professional areas such as teachers there are gender-based income inequalities, as women tend to be concentrated, relative to men, in primary schools where pay is comparatively lower than secondary and junior secondary schools. In Kiribati, for example, the 2000 Census³³ revealed that in total there were 15 female Head Teachers in primary schools as compared to 8 males, and a total of 3 female Head Teachers in secondary school as compared to 9 males for the same year. In respect of unemployment, women experience a higher level of unemployment compared to men in all the Pacific Island countries.

8.8 Education and social security

Occupational mobility, low status and lower income experienced by women are generally a direct consequence of education levels attained. As a result, social security and social protection benefits available to women can vary dramatically if it is not based on the practical assessment of their needs.

Steady progress has been made on achieving gender equality in educational participation in most of the Pacific countries and as a result a number of women have and are continuing to access positions of leadership in both private and public sectors. There are however, gender inequality in enrolments, at all levels in all the project countries, with disparities comparatively much lower in Samoa and Fiji³⁴. The disparity is partly attributed to the unequal number of males and females in the population as well as the issue of accessibility, affordability, and the socio-cultural factors such as preferences of boys over girls to attend school in situations of limited resources. For example in Kiribati, figures reveal that there are total of 37 junior/senior secondary high schools with an enrolment of 10,443 pupils as compared to 90 primary schools totalling 14,023 students. Tertiary education is provided by only 2 major providers, with students pursuing further specialised tertiary education outside of Kiribati mostly in Fiji, Australia and New Zealand.

More females than males have never been to school in most Pacific Island countries. The largest numbers of people without education are those living in rural areas. Lack of education is high in Solomon Islands, Vanuatu and Kiribati and low in Fiji and Samoa. In Kiribati, Vanuatu and Solomon Islands there is significant gender inequality in educational participation with female enrolments tending to decline after the first few years of primary school and strong disparities evident in secondary and tertiary enrolments.

Overall at the primary level, figures show a disparity in female/male enrolment with a higher female enrolment both in terms of proportion and absolute numbers. These figures do not reflect retention and completion rates and therefore are not true indicators of overall education participation rates at the primary level. This is true for all levels of education and there is therefore the need for further data collation and analysis to reflect the accurate situation.

³² Labouring under the Law: A Feminist critique of employment legislation affecting women in Fiji by Atu Emberson-Bain and Claire Slatter, September 1993.

³³ 2000 Kiribati Census, Bureau of Statistics

³⁴ Triennial Conference of the Pacific Women and Pacific Ministerial Meeting on Women 2005, Volume 2. Technical Papers. Noumea, New Caledonia: Secretariat of the Pacific Community

Table 8.1 *Proportion of the total population with “primary education” as the highest level of education.*

Country/Year	Urban		Rural	
	Male	Female	Male	Female
Fiji (1996)	24.0	24.0	35.5	34.5
Kiribati (2000)	54.2	54.0	67.5	65.7
Samoa (2001)	25.2	24.9	34.0	32.4
Solomon Islands (1999)	42.2	45.8	51.7	47.8
Vanuatu (1999)	55.7	60.5	70.0	68.8

Source: SPC Pacific Youth Database 2003

The review report of the PPA noted that there does not appear to be significant sex bias in the field of study. This however needs to be further researched because anecdotal evidence shows that there is a high concentration of women workers in sectors that are considered traditionally female areas and are closely related to their reproductive roles such as nursing and teaching. Within each sector figures reveal that women are highly concentrated at the lower rung of the hierarchy. Women also receive fewer scholarships than men particularly in countries where there are fewer girls than boys completing secondary schools.

Table 8.2 *Proportion of the total population with “tertiary education” for selected project countries.*

Country/Year	Urban		Rural	
	Male	Female	Male	Female
Fiji (1996)	13.2	10.1	3.8	3.0
Kiribati (2000)	1.7	1.0	0.5	0.3
Samoa (2001)	15.2	13.1	5.7	4.5
Solomon Islands (1999)	15.9	9.0	3.1	1.1
Vanuatu (1999)	4.0	2.5	0.3	0.2

Source: SPC Pacific Youth Database 2003

Although there is no significant difference between female and male in secondary education there is however sex disparity in tertiary education with less numbers for female as compared to males for all countries. This situation is critical in Solomon Islands followed closely by Vanuatu, Fiji and Samoa. The ethnic conflict within the Solomon Islands can be a contributing factor.

Table 8.3 *Proportion of the total population with “no education”.*

Country/Year	Urban		Rural	
	Male	Female	Male	Female
Fiji (1996)	2.7	4.7	3.5	5.5
Kiribati (2000)	5.7	6.9	6.9	8.6
Samoa (2001)	0.2	0.7	1.4	1.2
Solomon Islands (1999)	12.3	22.0	31.7	43.5
Vanuatu (1999)	6.2	7.0	17.1	21.0

Source: SPC Pacific Youth Database 2003

Table 8.3 above shows that the largest number of people without education live in rural areas and that more females than males have never been to school. There is considerable variation between countries. Lack of education and presumed illiteracy is high in Solomon Islands and Vanuatu and low in Fiji, Kiribati and Samoa, and is so much higher for females than males.

The foregoing reveals that women and young girls are still greatly disadvantaged when accessing quality education in all the selected Pacific island countries. Consequently with the existing social protection mostly in the form of Provident Funds, which is based on fixed rates of contribution calculated on the basis of salaries received, women therefore will continue to be disadvantaged as most of them are concentrated in sectors and/or levels that are lowly paid. With figures showing a high proportion of women with no education and/or literacy it follows that the majority of these women will be employed either in the rural and urban informal sectors, or as unpaid family workers with no form of social security available to them.

There is definite need for increased adult education and raising awareness in the project countries on gender inequality and the issues that arise as a consequence. Most of the countries studied with the exception of Samoa³⁵ are patrilineal societies and gender sensitivity training³⁶ carried out in the region shows the lack of awareness, amongst policy makers in every

³⁵ The Samoa traditional system is based on the Matai System where the heir can either be a son or a daughter of the descendants of the title holder. Not all *matais* however have access to *pule* or authority over family land. *Matai* are ranked according to seniority and only those with senior authority hold this right.

³⁶ The Pacific Women's Bureau undertakes as part of its programme gender sensitivity training and training of trainers around the region.

sector, and societies as a whole, on the issues of gender equality.

8.9 Institutions, policies, legislation and programmes in support of gender equality³⁷

A brief discussion on the current status of the institutional mechanisms, policies, legislations and programmes in support of gender equality in Fiji and Samoa is necessary to assess the enabling environment without which the commitment to gender equality by governments, NGOs and the major development partners, including ILO, will be difficult to achieve. The project countries share similar historical, socio-economic, cultural and political backgrounds and therefore the issues faced in these two countries can be extrapolated for the five project countries.

Fiji and Samoa have endorsed the Pacific Platform for Action (PPA) with one of its strategic objective “to develop and strengthen appropriate mechanisms that will continue to enhance the advancement of women at all levels”. The platform calls for strengthening of NWMs through the allocation of additional financial and human resources and integrating gender equality in decision-making processes. Institutional Mechanisms for the Advancement for Women is one of the 12 critical areas of concern of the Beijing Platform for Action. Strategic objective (H) with regard to this area emphasises the need to integrate gender in the public policies, legislation, programmes and projects, and focuses on gender disaggregated data and information for planning and evaluation. The 2000 Millennium Development Goals emphasises gender equality throughout the document. It is however silent on the economic empowerment of women and has been criticised as adopting a minimalist approach on the issues of gender and development.

Fiji has consistently made international, regional and national commitments to gender equality. It has an established Ministry for Women and adopted a National Plan for Action in 1999. There are now discussions to review the Plan of Action. The Ministry has a large number of staff but is considered bottom-heavy with a lack of capacity to analyse sectoral policies and legislation

including the employment legislation. Since 2000 the office has experienced a high staff turnover and has to an extent undermined the capacity within the Ministry. It has an operating budget but its development budget is very small and is mostly reliant on donor funding to carry out development activities including research. To-date most of the programmes undertaken by the Ministry are focused on service-community projects. There is a need to focus on policies and legislative reforms, and gender mainstreaming, being core mandates of government. An important area that the Ministry can focus on is the issue of gender equality in the workplaces. This change in focus will however, require a change in the structure of the Ministry and notably an increase in the capacity of staff to carry out policy and legislative reviews.

Promotion of gender equality in Fiji has benefited from a very strong active role played by the NGOs which has provided the much needed impetus of placing the gender issues in the national agenda. Their work in the areas of law reform and legal literacy, violence against women and women in leadership are notable achievements. Further efforts are required to maintain linkages and networking of the national women machinery with women’s NGOs.

Although Fiji has made significant legislative strides in comparison to other Pacific countries in the areas of criminal, evidence and family laws as well as the employment bill a lot still needs to be done. The 1997 Constitution recognises equal rights of citizenship for both men and women and equal status of spouses of Fiji citizens, whether male or female. This overturns the former 1990 Constitution discriminatory provision against female Fiji citizens. Furthermore the 1997 Constitution contains a comprehensive Bill of Rights that forbids unfair discrimination on the basis of gender and allows for any laws or administrative action based on gender, *inter alia*, to be challenged or cited as discriminatory. The constitution also allows for affirmative action programmes of women.

Political stability and/or instability have had a profound impact on the performance of the national women’s machineries. Fiji’s political events have proven a setback for the promotion of gender equality both in terms of resources and being progressive. Domestic violence, as a consequence, and as recently reported in the media have increased substantively as a result of

³⁷ Triennial Conference of the Pacific Women and Pacific Ministerial Meeting on Women 2005, Volume 2. Technical Papers. Noumea, New Caledonia: Secretariat of the Pacific Community

a combination of factors. Ethnic issues have been the preoccupations of the day and it is to the detriment of innovative policies on gender equality or economic growth that would result in income and employment creation for both men and women.

As noted the national women machinery in Fiji has been able to achieve some results in raising awareness on women's issues and legislative reforms. The Ministry has been active at the programme delivery level but has been less effective in terms of driving the policy and mainstreaming gender at the legislative and political levels. This is imperative if programmes such as the social security project supported by ILO are to have a sustainable impact and a strong technical national women machinery is a pre-requisite to promoting and achieving gender equality in all sectors.

Samoa has adhered to the international, regional and national commitments and is has been highly successful in promoting women to decision making levels demonstrated in the number of women that have attained higher tertiary qualifications and the high number of women that are in executive positions as shown in the research³⁸ undertaken in Samoa. The Ministry of Women has been successful in raising the awareness on the need for greater gender equality in Samoa and has formed a sound network with non-government organisations. The Ministry however, also needs to consider a redirection of its focus, and similar to the Fiji's national women's machinery, to focus on the legislative and policy reforms particularly with respect to sectoral policies. There is also a need to build the capacities of the Ministry to undertake such programmes within the Ministry.

It is essential to establish clear policy on women particularly in the areas of mainstreaming. Numerous activities have been undertaken to promote gender equality and raising the gender issues such as domestic violence. Other areas that need immediate attention are the review of laws. The Samoa Attorney General in the year 2000 noted "that there was no deliberate discrimination against women in Samoa however the gap identified calls for the review of outdated legislation inherited from its colonial past. This includes laws such as specific issues as sexual harassment and inequalities in the work place,

e.g. the outdated Labour and Employment Act of 1972"³⁹. It is unlikely that the Ministry is able to tackle this on its own due to the lack of technical expertise in-house. This is an area that ILO can provide the much needed technical support in the future to promote the review of the legislation.

Political stability and continuity in Samoa has played a pivotal role in the smooth transition towards reform and the stable role of the Ministry for Women. It can be argued however, that this has prevented the much-needed change at the policy and decision-making level. There is need to further advocate and implement the key areas identified in the Department of Women's policy. Similar to Fiji, the Samoan Constitution not only forbids discrimination on the basis of sex but also states that "nothing shall prevent the making of any provision for the protection or advancement of women" (Article 15, Section 3 (b)).

The Constitutions of the two countries and the various commitments made at the international, regional and national levels provide the platforms for promoting and achieving gender equality. However, there are still wide gaps experienced between the stated policies and implementation of these policies. This situation applies to the entire project countries. That despite national women machineries being established the governments have lacked the political will to give it the real means to influence policies.

The lack of capacities within the Ministries in both countries is shown in the lack of integration with other government departments and ministries. Both countries have undergone public sector reforms and this has had a detrimental impact on the efforts of promoting gender equality in the two countries. Furthermore this also has had a direct impact of weakening the national women's machineries in terms of resources both financial and human.

The lack of sex-disaggregated data is a major drawback in the work to advance gender equality. It is found that no Pacific National Statistics Offices (NSOs) have a gender statistician in place and there are no dedicated gender sections to assess and analyse the official census statistics collated. Comparisons between countries of gender statistics are limited in several ways.

³⁸ Ministry of Women. 2002. Directory of Women of Samoa.

³⁹ Triennial Conference of the Pacific Women and Pacific Ministerial Meeting on Women 2005, Volume 2. Technical Papers. Noumea, New Caledonia: Secretariat of the Pacific Community

Firstly they convey no information about the socio-economic or cultural contexts, or regional variation within countries. They tell us 'what' but not 'why'. More qualitative, as compared to quantitative, data and information is required to understand and analyse the underlying conditions of the gender inequality experienced by both women and men.

8.10 Equality issues in social protection and social security

In many developed countries, progress has been made in eliminating direct and indirect discrimination in the access to social security and social protection although much remains to be done. For the project countries in the Pacific a number of major challenges exist in the implementation of social security and protection schemes. This includes extending the social security to those currently not covered under the existing schemes the majority of whom are concentrated in the informal economy. The lack of awareness, of social security and how it functions, at the policy level and lack of political will has limited the introduction of a variety of social security schemes that would benefit the public at large and contribute towards the eradication of poverty.

Equal treatment in social protection, similar to programmes and activities implemented in any other sectors, assumes that men and women are in the same employment situations regardless of sex. More often than not this is not the case with conditions of employment different for both men and women. Gender discrimination exists in the labour market and applying the formal principle of equality in such situations gives rise to further inequality when social security benefits and contributions are based on employment history and contributions made. This is demonstrated in the formal economy survey undertaken for the five project countries, and with the exception of Samoa, the remaining four countries shows a disproportionately much higher proportion of males than females employed in the formal sector. Furthermore employment histories of women are often characterised by broken periods of employment having to take time off for reproductive responsibilities including looking after the children, the sick and elderly as well as for maternity leaves. These periods of 'unemployment' are taken either with reduced or without remunerations with the overall impact of reduced lump sum payments such as is the case

under the Provident Fund schemes. Although the sample survey undertaken was biased in favour of the males, the result, it can be argued based on other developed country experiences, is representative of the whole formal economy.

Therefore measures for promoting equality in social security need to be developed based on an accurate assessment of the needs of men and women and a thorough assessment of the impact of social protection and social security systems on their positions.

While women have increasingly entered the labour market this has not led to improved coverage for women. Additionally their employment status continues to be characterised by lower wages, mediocre career prospects and precarious forms of employment. At the same time family situations have become more diversified and continue to change which in the majority of cases women continue to be mainly responsible for looking after the household and the family, and producing goods and services for family consumption, for example in subsistence agriculture or by working as unpaid family workers in enterprises. Even where some benefits are provided such as family allowances and child care subsidies, these are often less generous than those based on paid employment due to the lack of financial resources provided by the State. In the case of Fiji, for example, for a long time the family allowance was 'pegged' at FJD 15.00 per month and was only increased to FJD 100.00 where it has remained since the year 2000. This is also reflected in the national budgetary allocations provided to the social sectors as compared to the economic sectors.

Research shows that in all the other Pacific Island project countries studied, the different work patterns that exist between women and men are not recognised and except in the case of Fiji family allowances or child care subsidies are not provided for. Even in the case of Fiji the family allowance is not a deliberate response to the different work patterns but as part of the scheme inherited from its colonial past. There is therefore the need to review existing social assistance provisions and the fundamental criteria on which they were originally designed in view of the changing socio-economic and cultural environment.

Current social security systems are based on the traditional notion of 'nuclear families' with men

as ‘head’ of households and the ‘breadwinner’ in the families. Provident funds within the Pacific operate on similar assumptions where women are seen as the dependents of men and as a consequence benefits received are assessed on the premise of ‘derived rights’ rather than ‘direct rights’. Women accessing funds from the Provident Funds for contingencies often undergo stringent criteria such as requirements for additional documentation. In the case of Fiji, women are able to partially withdraw their contributions on marriage. This facility is not available to men and it can be assumed that the rationale is based on the premise that women on marriage have ‘inherited’ family responsibilities and the withdrawal is to offset some of these costs.

There are also an increasing numbers of *de-facto* or *de-jure* female-headed households due to increase in divorce rates, single-parent families and where male head of the households are required to work overseas. An example of this is the increasing number of males working on foreign fishing vessels in the case of Kiribati and Ni-Vanuatus⁴⁰ or those who have migrated to the urban centres or overseas for better job opportunities. Women having to maintain such households are more often very vulnerable to poverty. There is therefore a definite need to assess such situations and for governments to put in place measures to help mitigate against these factors.

Table 8.4 Life expectancy for the project PICs

Country	Population	Population (%)		Life Expectancy (yrs)	
		Male	Female	Male	Female
Fiji	810, 421	51%	49%	64.5	68.7
Kiribati	84, 494	45%	55%	59	65
Samoa	176, 710	52%	48%	63.5	65.5
Solomon Islands	409, 042	51.70%	48.30%	64	66
Vanuatu	207, 586	51.25%	48.75%	65.6	69

Table 8.4 shows that in all the Pacific countries studied women are living longer than men. These

demographic changes are factors for consideration and when social security schemes are linked to earnings, women who raise children are bound to be worse off economically because of the interruptions in their market work. On average, for the five countries studied, women live longer than men by 3.5 years, with women in Kiribati living longer by 6 years. There is however, little change in the trend in life expectancy, (Schoeffel (2004)), and it can be assumed that there has not been much change in the quality and coverage of health services. Currently available health statistics do not adequately disaggregate rural and urban data⁴¹. Health resources tend to be concentrated on curative services provided at hospitals but as people live longer and as the way of life changes more people are contacting non-infectious diseases such as heart, kidney and diabetes. The priority given to health care insurance in the various country surveys conducted is reflective of this status quo. In countries such as Solomon Islands and Kiribati, which have the highest rates of maternal mortality and the lowest proportion of the supervised deliveries, and where comparison between the rural and urban women needs to be made, the low ranking given to maternity schemes is not surprising. As noted the surveys conducted, the sample was biased towards males and is reflected in the kind of data collected. There is need for further surveys to identify the specific needs of women which can only be adequately addressed with gender technical support of the sub-regional office.

Maternity protection for example is available to public sector workers and to the private sector under collective bargaining. These are however limited as in the case of Fiji where for the first three confinements a female civil servant enjoys the 84 days maternity leave with full pay and thereafter receives an allowance of FJD 5.00 per day. This is common in the project countries and is discriminatory to women. The proposed 2004 Fiji Employment Bill now under discussion proposes that for the fourth confinement and thereafter an increase of allowance to FJD 7.50 per day. This is discriminatory towards women where the benefits are based on contributions and length of tenure of employment and there are no compensations in the form of children or family allowances. Certain categories of women are (implicitly or explicitly) excluded from the benefits of maternity leave including those

⁴⁰ Ni-Vanuatu is the name for indigenous people.

⁴¹ Pacific Human Development Report, UNDP 1999

classified as casual workers. The Vanuatu Employment Act provides provision for maternity protection for a total of 24 weeks (12 weeks prior to and 12 weeks after delivery). Compliance and conformity to the Employment Act could be a subject of further study as the extent of adherence by private sector employers is unknown.

8.11 Survey of workers in the informal economy and the formal employment sector⁴²

The Social Security Project in the Pacific countries aims to improve the coverage and efficiency of the social security systems in the five selected countries in the Pacific sub-region by developing and implementing national action plans for the extension and improved governance of the social security systems and by conducting joint capacity building activities at the sub-regional level. Based on a gender analysis and a gender needs assessment of social security, the project will develop social security policy which is more responsive to gender-specific needs and thus promotes gender equality.

At the end of the project, the Governments and social security organisations will have formulated a comprehensive country program on social security in the form of tripartite national action plans based on the needs assessment survey and the financial and gender analyses, and taken steps for their implementation.

As a first step for the development of the national action plans on social security, a special needs assessment survey – the coverage mapping survey – was carried out. The survey focused on men and women who are excluded from the current system, i.e. those who work for small employers, the informal economy and the home-based workers. In addition to basic characteristics (e.g. income level and pattern, family composition, health condition etc.) of the excluded people, the respondents were asked to prioritise social security needs as well as their capacity and willingness to participate in some form of risk pooling arrangement, including micro-insurance schemes

The purpose of the surveys was to provide a basis for the formulation of the policy to extend social security coverage to the excluded population; in

particular, workers in the informal economy where the lack of social security is largely concentrated.

In the context of globalization, there has been increasing informalisation of employment especially in developing countries. Contrary to earlier anticipation that the formal employment sector would absorb most workers as a result of economic growth and development, the informal economy has been growing rapidly and this trend is likely to continue in the foreseeable future. Hence, there is an urgent need for focused interventions in providing social security for workers in the informal economy.

8.11.1 The formal employment sector

The formal employment sector represents the more administratively visible part of the economy and society, namely the public and private corporate sector, and comprises enterprises and the professional self-employed that have been accorded legal status and are regarded as legal entities.

This legal status is accorded through registration by professional associations, Ministry of Labour and the Ministry of Trade and Industry or their equivalents in each country. As legal entities, the enterprises are subject to labour laws administered by Ministry of Labour and to the ILO conventions that have been accepted by the respective countries. The formal sector in the countries in the study ranges from about 25 to 40 percent of the economically active labour force. Of this it is estimated that approximately 37 percent are women. With the exception of Fiji the public sector is the major employer within the countries of study.

The employment sectors in Pacific countries are measured by the National Statistics Departments in a National Population Census conducted every 5 or 10 years. Modifications through annual statistical returns from employers or by targeted labour market surveys of selected sectors of the economy are not common in Pacific countries. As a result the total dimension of the labour force is not necessarily complete in most countries. The basic classification of the formal sector is the *Legal Entity*, described as: - *Legal status of a company/unit of economic activity based on the requirement to register with the appropriate*

⁴² For extensive background information, survey and findings on the five project countries studied, the specific country reports are to be read in conjunction with this section.

government agencies; usually the Ministry of Labour and the provident fund.

The aim of the sample survey of workers in the formal employment sector was to obtain some indicative parameters about the workers and their priority social security needs, who provides or will provide for these basic social security needs, gaps in coverage and their potential to contribute to voluntary schemes. The survey also recorded some of the demographic and other details about the workers including their income patterns, work category, insurance and micro finance and membership of organisations.

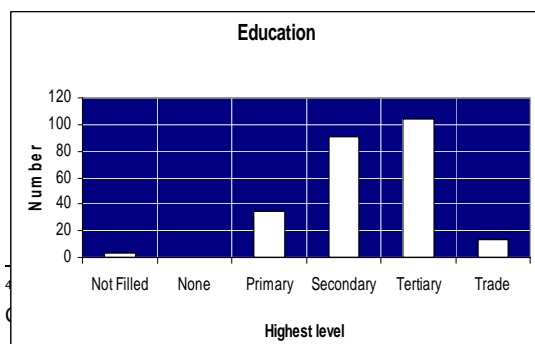
The employment status of the sample was almost completely composed of full-time employees which is expected for the formal employment sector and validates one of the key definitions and characteristics of formal employment sector employment

8.11.2 The formal employment sector in Vanuatu

The employment patterns in the formal economy showed that in terms of employment the government is the largest employer with 31.4 per cent of employees. However the second and third largest employers are retail and wholesale (17.3 per cent) and hotels and restaurants (11.4 per cent) and these predominantly reflect the importance of the tourist industry to Vanuatu. If the other services are included as a reflection of tourism then over 30 per cent of employment is focused on the tourist industry.

The 2000 labour market survey showed that out of a total of 14,272 formal sector workers 9,588 were males and 4,684 were females. Looking at the occupational categories in more detail reveals even sharper segregation. For example for every category, skilled and unskilled, men predominate. This disparity is more pronounced at the professional and technical levels⁴³.

(i) Education



The highest education level represented by the sample was tertiary level followed by secondary level. This contrasts markedly with the informal survey where the bulk of the respondents had only primary level education and there were some cases which had no formal education. This education level may be biased by the high proportion of public sector employees in Vanuatu and the education levels may reflect the public service entrance minimum standards.

The result of this survey is not sex disaggregated. The review of the Pacific Platform for Action highlighted however, that in 1999 the proportion of females with tertiary education was 2.5 per cent as compared to 4.0 per cent for males in the urban areas, and in the rural areas it was 0.3 per cent for males and 0.2 per cent for females.

(ii) Employment

Table 8.5 Formal employment sector employment and salaries

2000 Labour Market Survey					1999 Pop'n census excl. subsistence agric.
Occupation	Male	Female	Total	Median monthly Salary ⁴⁴	
Legislators, senior officials & managers	1,035	280	1,315	101,930	842
Professionals, technicians	2,157	1,375	3,532	53,686	4,961
Clerks	693	1,060	1,753	44,418	1,739
Service and sales workers	1,437	1,146	2,583	48,712	4,186
Skilled agricultural & fishery workers	424	36	460	26,260	1,881
Crafts & related trades workers,	1,418	77	1,495	37,340	3,486
Plant & machine operators / assemblers	813	52	865	30,324	1,770
Elementary occupations	1,611	658	2,269	23,833	3,486
TOTAL	9,588	4,684	14,272	40,879	22,351

Source: Vanuatu 2000 Labour Market Survey and 1999 population Census

The analysis shows that the 2000 Labour Market Survey⁴⁵ identified 14,272 formal employment

⁴⁴ Ni-Vanuatu only (name given to indigenous peoples of Vanuatu).

sector workers of which 9,588 were males as compared to 4,684 females for the same year. For all categories of occupation gender disparity exists in favour of males as observed from the above table. For ‘Legislators, Senior Officials and Managers’ there is a total of 1035 men employed as compared to 280 female, under ‘Skilled Agricultural and Fisheries’ there were 424 men as compared to 36 women. This confirms world-wide evidence that women are delineated to junior positions and that very few have broken the ‘glass ceiling’ to hold managerial and senior official positions. The breakdown under skilled agriculture occupations etc need to be further researched and analysed as fishing activities undertaken by women such as cleaning and collecting sea-shells are often not counted under this category. Under the ‘Professions and Technicians’ category, and in a country where the largest employer is government and a small private sector, it is interesting to note the higher representation of men at 2157 as compared to women with only 1375. However, based on other studies, it can be argued that a separation of these two occupational categories would reveal a higher representation of women in the professional and an almost negligible number under the technician sub-category.

As expected in the ‘clerk’ category there were a total of 1060 females as compared to 693 males validating the world-wide trend where the dominant ideology of women is carried over into the into the paid workforce determining their low status position within the employment strata.

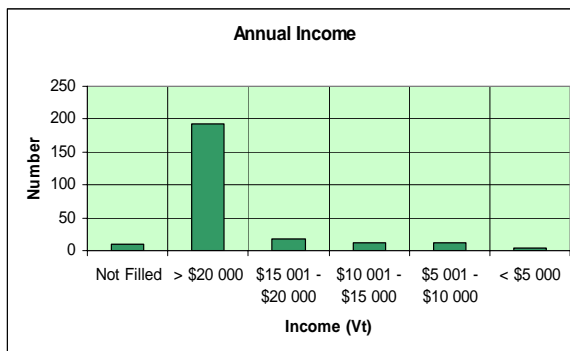
Employment type

The sample identified 61 per cent of respondents as being employed by the public sector and in the absence of accurate data this appears to be slightly higher than expected and based on the labour market survey in 2000 and 1999 population census, 31.4 per cent of formal workers were employed by the government.

The employment categories require some correlation with the range of ILO occupational classifications which were condensed for the purposes of this indicative survey. If the service related occupations are grouped from the 2000 labour market surveys then about 35 per cent of the formal employment sector workers are engaged in clerical or professional activities. This survey produced a bias that shows almost 60 per cent of workers engaged in these occupations.

(iii) Annual income range

The design of the data collection form contributed to the bunching of incomes in the upper range that is greater than VUV 30,000 where about 80 per cent of the responses lie.



(iv) Social security

The coverage provided for age retirement by VNPF is evident in the responses and it is presumed that the small responses for other benefits may be from employer or industry sponsored schemes. As expected the survey respondents were almost all provident fund members which suggest that compliance is relatively high and that the survey targeted the formal employment sector workers. About 25 per cent of respondents indicated that they had some form of cover in addition to the standard universal cover provided by government. The employer sponsored schemes were the largest of these with about 20 percent of the sample.

Similar to the other four project countries responses received during the survey identified the three top social security needs as family health insurance, followed closely education and unemployment. Age retirement and workplace injury/death were also rated as important by the respondents. On the question as to who should contribute, employers and the national government were identified followed closely by individuals. More than 59 per cent said that they were willing to make additional contributions to extend coverage and a further 36 per cent of the respondents were willing to contribute more than VUV 30.00.

(v) Analysis

The sample survey in Vanuatu is biased towards females at 43 per cent. The highest education level represented by the sample was tertiary level

followed by secondary level. The employment status is almost completely composed of full-time employees which is expected for the formal employment sector. The sample identified 61 per cent of respondents as being employed by the public sector, a deviation from the 2000 labour market survey and 1999 population with 31.4 per cent were employed by government. The sample survey produced a bias that shows almost 60 per cent of workers engaged in clerical and professional activities in contrast to the 35 per cent as indicated by the labour market survey in 2000. The growth of the service sector however, particularly tourism since 2000, conveys that the deviation may not be as marked.

The survey on education levels and employment type are not sex disaggregated. Other studies, however, have shown that at the tertiary levels males outnumber females, and the disparity in favour of males is wide in the urban areas as compared to the rural areas. Since the level of education determines to a large degree the type and level of employment that is accessible to an individual, and based on world-wide trend, it can be assumed that of the 61 per cent employed in the public sector in Vanuatu most are women concentrated at the lower levels of the hierarchy. This will have a direct impact on the contributions and benefits received by female workers.

The priority needs identified and the willingness by the respondents to make additional contributions to the schemes highlight that there is a possibility of extending the coverage to other workers, and the introduction of family health insurance would cover to some extent the needs of females.

8.12 The informal economy

The Project undertook specific sample surveys of workers in the informal economy to obtain some indicative parameters about the workers and their priority social security needs; who provides or will provide for these basic social security needs, gaps in coverage and their potential to contribute to voluntary schemes.

The ILO concluded in the 1970s that the informal economy was both efficient and profitable and there emerged the view that it should be promoted as a strategy to tackle structural inequalities and to meet the basic needs of the poor. Continuing rural-urban migration and

economic shocks caused by environmental conditions, conflict and poor governance reaffirmed the importance of the informal economy in terms of work and income generation.

The definition and classification of the informal economy is difficult in many countries because comprehensive data is often unavailable and informal economy studies are often limited to selected employment sectors. The broadest definition for the informal economy includes those workers who do not receive a regular income and have no contracted or enforceable employer/employee relationship. This usually includes a predominance of self-employed, casual and unpaid workers in family businesses and those not registered or subject to labour laws. Many enterprises in the informal economy may be registered with local authorities and finance regulators such as the Ministry of Finance or the taxation office, but have not been accorded legal status under the definition of legal entity by the Ministry of Labour, and have not been identified by the provident fund.

In most Pacific countries the bulk of the workforce is still employed in traditional agricultural occupations, and most workers in the informal economy are in rural areas in the agricultural sector.

While the formal economy has a tendency to produce *jobless growth*, the informal economy continues to absorb the bulk of the job seekers who annually enter the labour market. These jobs are created with little capital and without any subsidy from the State. These informal enterprises often rely on indigenous resources, including re-cycled materials, and produce predominantly for local markets. The entrepreneurs mobilise their own financial resources via family networks, savings clubs and rotating credit systems. Accommodation for newcomers is provided and training given on the job. Many workers in the informal economy also maintain strong ties with their places of origin, and often foster plans to return. Urban to rural remittances, particularly from the capital cities in Pacific countries and from expatriates working overseas, occur on a very large scale and for many village households this capital flow has even become the major source of household income.

Apart from generating work and income for a large proportion of the population, in most cases more than 60 per cent, of total employment, the informal economy is also a major supplier and distributor of basic services and needs such as water, food, clothes and shelter. In urban areas the self-built housing sector meets a substantial amount of housing needs. Without the informal sector the majority of the urban population would have difficulty surviving in the city.

Options for classification can include degree of employment mobility and assets, geographical location or broad employment activities. In the case of most Pacific island countries the broad employment category appears to be an efficient classification parameter because of the limited range of occupations and the domination of the agricultural sector in employment of the population.

In the absence of any formal classification of the informal economy a reasonable occupation based classification is listed below. This classification was used to design an informal economy survey that would provide a close correlation with the structure of the informal economy and at the same time be able to be randomised within that structure.

8.12.1 Informal economy classification

Predominantly Rural

1. Farm and Farm Related Activities comprising subsistence farmers, small landholders in specialised or mixed farming, landless farm workers and unpaid family members.

2. Fishing, where this is the major income source. It is recognised that in some households, income and subsistence will be derived by a combination of fishing and farming.

Mostly Rural Some Urban

3. Home Workers including craft workers, mat weaving, garment making and housemaids.

4. Self Employed Workers including micro-entrepreneurs, small traders and miscellaneous enterprises.

Mostly Urban

5. Transport Industry Workers including taxi drivers, small repairers and other small transport passenger and freight services.

8.12.2 Informal economy priority needs survey

For each of the project countries a sample survey was undertaken. The aim of the sample survey of workers in the informal economy was to obtain some indicative parameters about the workers and their priority social security needs, who provides or will provide for these basic social security needs, gaps in coverage and their potential to contribute to voluntary schemes. The survey also recorded some of the demographic and other details about the workers including their income patterns, work category, insurance and micro finance and membership of organisations.

8.12.3 The informal economy in Vanuatu⁴⁶

The *social security gaps* in Vanuatu are substantial. Basic health cover is provided by the government with a moderate charge levied on hospital care and whilst workers compensation is compulsory, the degree of compliance is uncertain due to the fragmentation and lack of coordinated management information available about the system. Apart from selected private insurance and micro schemes through credit unions and union schemes the majority of the population have no social security coverage and workers in the formal economy have access only to selected programs. Limited coverage for loss of income from sickness, unemployment, maternity, invalidity and for widows is unavailable to almost all of the population. Only some of the population have access to retirement, invalidity or death benefits. Social assistance and welfare payments are provided only by NGO's and donor agencies.

Based on an initial research undertaken by the project a summary of the social insurance and social assistance programmes in place are as follows:

Social insurance

- Old age pensions – not available with lump sum payment by Provident Fund.
- Disability and survivors benefit - formal economy workers protected against some loss of income through the provisions of the VNPF.

⁴⁶ For further details refer to the Vanuatu – Informal Economy & Formal Employment Sector Survey Report, ILO Social Security in Fiji, Samoa, Kiribati, Solomon Island and Vanuatu, December 2004

- Work injury insurance - available through private insurance schemes.

Social assistance

- Programmes for the disabled – only trade union, private and family schemes
- Medical rehabilitation – limited to critical cases evacuated to Port Villa or overseas
- Assistance to disaster victims – available on an ad-hoc basis
- Subsidised medical treatment – part of the national health care policy.

The balance between the sexes in the survey was biased towards males 61 per cent as compared to females at 39 per cent because of the type of industries chosen. Many of the traditional farmers, fishermen and transport workers were males. The predominant work areas for females in unpaid family care, family , and home workers were less accessible to the surveyors. The sample correlates reasonably closely to the 2000 Labour market survey where 55 per cent of the active workforce was male and 45 percent female.

The number of dependents as shown in the following diagram follows a natural distribution curve with the mode around four dependents per family although the weighted average would be closer to 5 dependents per family. This compares favourably with the 1999 Population Census where the average family size was 5.1. The number of single parents was 19 in the sample of 300, which represents about 6.5 per cent of the sample. Given the bias of the sample to males this is not likely to represent the true situation of single parent families and a national benchmark was not available from existing statistics.

The highest education attainments of the workers in the sample in terms of absolute numbers in the sample males represent the highest numbers in all categories of education. However, when considered as a percentage of each sex it can be seen that a higher percentage of females have only achieved primary education, and they also have less representation in secondary achievement; however females have a higher percentage of tertiary achievement than males.

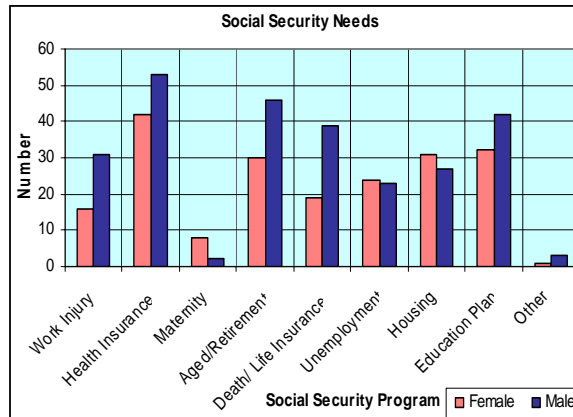
The employment status of the sample showed is dominated by self employment with some unpaid workers. Males outnumber females in self-employment confirming that women are often employed in family businesses as unpaid workers, and are often undervalued and therefore not

reflected in the surveys. In the employment types of the respondents in the sample females represent the highest number as compared to men in the home workers and retail/market categories. In fishing and farming men are more highly represented. This is attributed to the pervasive cultural and social norms where these activities are still considered to be the domain of men and where women’s roles are still considered subordinate alongside men in all areas of fisheries and farming development, despite their increased activities in these two major areas.

(i) Social security needs and priorities

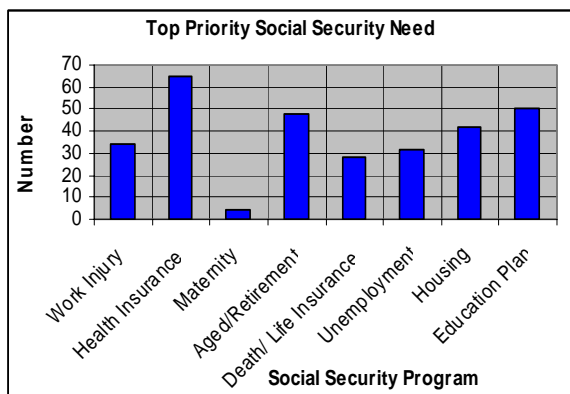
Respondents were asked to identify their social security needs in the same colloquial language for previous social security questions. In this case multiple needs were accepted and from a sample of 300 people 473 needs were identified. It is interesting to note that health insurance was easily the most common need identified by males, and females and males also identified aged/retirement programs as the second most common need.

Respondents were then asked to nominate these needs in priority order and the following charts show the highest priority needs. This chart shows that health insurance program is the most popular with retirement and education plans also rated highly. The low response to death/life insurance

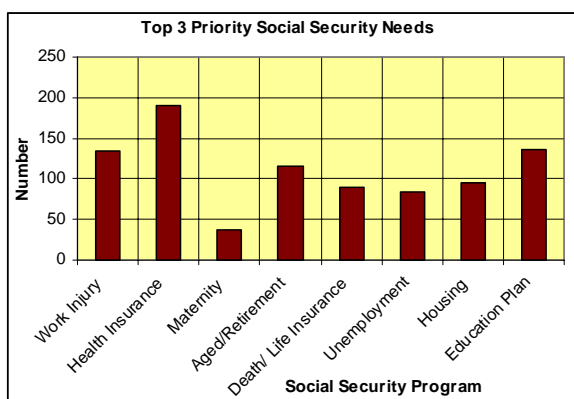


programs may be reflected in the age groups i.e. working age and younger people. The low response to maternity programs may be reflected in the high number of single or married couples without children.

By grouping the top 3 priority needs identified by the respondents the priorities are somewhat moderated but health insurance remains the most



critical need. Three programs work injury, retirement, and education have similar levels of priority. Maternity and programs were the lowest priority, although given that females represented only about one third of the sample and the number of single and couples without dependents, this rating may be skewed.



(ii) Analysis

The balance between sexes in the survey was biased towards males 61 per cent as compared to females at 39 per cent because of the type of industries chosen. Many of the traditional farmers, fishermen and transport workers were males. There is a need to look further at the job categories particularly traditional farmers and fishermen as most of the activities undertaken by women are overlooked and not considered by planners and enumerators; so women become the ‘invisible’ fisher folks. The predominant work areas for females in unpaid family care, family business and home workers confirms the world-wide trend.

The sample survey shows that females have a higher percentage of tertiary achievement than males. This does not necessarily contradict other

surveys carried⁴⁷ out because it focuses on the informal sector economy.

Health insurance was rated the highest with work injury, retirement and education with similar levels of priority. Maternity protection was rated the lowest however the sample survey represented only one-third of females and the number of single and couples without dependents, this rating may be skewed. It is also important to note that the high rating of health insurance and education capture to some extent the specific needs of women who are mainly responsible for looking after the sick and the education of children.

8.13 Conclusions and recommendations

It is important to underline that the status of women in the Pacific and the conditions of their lives have been shaped by a broader range of forces, notably their gender, ethnicity and social class, and the broader social, political and economic environment. Similarly, the legal status of women, in particular their position in respect of employment legislation, is crucially influenced by such factors.

This report begins with the premise that women are greatly disadvantaged both in the formal and informal economy. As a result they are more likely to be excluded in greater number as compared to men from social protection or in cases where these are available, such as social assistance, these are often very insignificant. These conditions are the product of limited economic growth and the broader social, political and economic environment. Specific gender studies need to be carried out to determine the linkages between these factors and the marginalised status of women in the Pacific Island countries.

For all five project countries the results of the sample surveys conducted confirm the absence of any formal social security programs in the informal economy. Furthermore the almost universal response of “other” suggests that people see traditional and family-based systems as a social security scheme. Credit unions and church membership also produced significantly high result. In the case of Samoa when asked how they made ends meet when they had little or no

⁴⁷ SPC Youth Database 2003

income, the majority identified gifts and remittances from family. Remittances in some of these Pacific Island countries including Samoa, Fiji, and to some extent Kiribati followed by Vanuatu have become a major source of foreign exchange. Evidence seems to suggest that these informal social security mechanisms can be efficient in ensuring a minimum level of standard of living and survival. These transfers have shown that they serve to act as insurance against risk mitigation, income shortfalls, help during sickness and support for the elderly. Whilst people would still argue that these traditional support systems are intact, evidence shows that this is not the case as society becomes more monetised. Initially the link to the place of origin may be still strong as first generation migrants move overseas. This however, is unlikely to continue with successive generations. Furthermore in adverse situations reliance on such traditional systems are not guaranteed.

More importantly from a gender perspective there is an inherent bias in the reliance on such informal systems of social security provisions. In all the Pacific Island countries studied, which are similar to other developing countries, the burden of “other” or social security provisioning by extended families falls heavily and disproportionately on women, particularly in the case of care for elderly and children. This calls for external intervention to either support or replace these informal mechanisms. Specific research is required to assess the magnitude of such remittances, who is largely responsible for such remittances, with figures disaggregated by sex, the impact that it has in meeting the contingencies that arise within families and society; and to make recommendations for the type of schemes and the support that can be provided by government and non-government organisations.

For all the project countries studied the main social insurance benefits available in the formal sector include:

- Disability and survivors benefits – through the Fiji National Provident Fund and are only available to workers in the formal sector. Provisions are limited in that the lump sum payments do not cover beneficiaries for the rest of their lives;
- Work injury insurance - available through employers and private insurance schemes. Currently this is on the basis of employers’ liability and compliance by the employers

and private insurance compliance is questionable;

- Maternity benefits - are available to the public sector and in certain situations it is part of the employment conditions. Under collective bargaining these are available to the private sector;
- Old age pensions - through the Provident Fund some pensions are paid to those with reasonably large balances. Universal pension are paid to people over 65 years in the case of Samoa, for Kiribati for people over 70 years old. In the case of Fiji, Vanuatu and Solomon Islands old age pensions are not available, with lump sum payments only paid by the provident fund.

Social insurance is social security financed by contributions and is based on the insurance principle where there is pooling of risks and spreading of benefits to cater for contingencies that may happen during ones life cycle. Contributions may be earnings related or based on a flat-rate. Under statutory schemes contributions from employees are matched by an obligatory contribution from employers or the state. For developed countries this is generally the form of social security implemented. This is not the case for the five Pacific countries studied where there is no social insurance in place. The provident funds operate as ‘de-facto’ social security systems but fall far short of the objectives of a social security system. Social protection is limited to the formal sector workers because the premium is often beyond the reach of those employed in the informal sector. Alternatively the irregularity of wages of those engaged in the informal economy would make continuous contribution impossible. Furthermore, such schemes, as found in the countries studied, are confined to the urban centres and whilst there is a growing informal economy they normally fall outside of this network. As noted it is this informal economy that is not usually covered by social security and *because it is heavily dominated by women* they are excluded from social protection. The question of financing is beyond the scope of this report but various options can be explored⁴⁸.

The sample survey carried out confirms that home workers and casual labour are dominated by women in the five countries and there is a need for governments to find innovative ways to

⁴⁸ Refer Maternity and Health Insurance studies – Social Security in the Pacific Island Countries.

expand social insurance to informal workers. Measures for consideration, subject to further research, include:

- Removing legal restrictions on scheme membership;
- Improving advocacy and information dissemination about the schemes; and
- Promoting voluntary schemes.

On the latter a number of these schemes are already in operation in Pacific island countries such as VANWOODS in Vanuatu and WOSD in Fiji. In such instances the government not only could provide the enabling environment for such organisations to operate but to provide specific support that is needed by these groups such as:

- Policy and legal support to allow for and promote the setup of simple insurance programs which are attractive to self-help groups;
- Financial support in the form of access to credit facilities to start or improve economic activities, and to administer the social protection scheme; and
- Training and support services to enable women and men to organize and arrange for a social protection scheme which suits their specific needs.

Various forms and combinations of social assistance exists in the project countries such as family assistance, programmes for the disabled, family schemes, universal health care, assistance to disaster victims and medical rehabilitation. Some of these schemes such as assistance to disaster victims exist on an ad-hoc basis. In the case of medical rehabilitation these are limited to critical situations only from rural to the urban centres, but not inclusive of overseas treatment. Family assistance and assistance to the disabled are, wherever they are present, often less generous than those based on paid employment, due to lack of financial resources.

Most of these social assistance benefits are premised on the notion of no intra-family inequalities. However studies have shown that inequalities within family exist including unequal access to (and use of) resources within the families. Moreover it is often found that women in such situations, even with meagre resources, are more than likely to spend their financial resources on the family needs and children as compared to men, who have a tendency to spend

these on social needs. Further studies need to be carried out to determine the extent of such practices.

There has been a significant growth of female headed households (including single-person households and single-parent families) due to higher rates of marital breakdown, divorce, increased longevity of women, and male emigration. Households maintained by women alone, whether temporarily or permanently, and especially those with young children, are more vulnerable to poverty. Preliminary finding of the sample survey of 1,500 for the proposed health insurance scheme⁴⁹ undertaken in Fiji showed that female-headed households have risen to 19 per cent as compared to 12 per cent recorded in the 1996 Census. This is confirmed by the preliminary 2005 HIES report prepared by the National Statistics Office.

Proposed future social protection schemes also need to take into account the different work patterns between men and women, the demographic changes, and the changes in the structure of the labour markets.

ILO commitment to gender is based on the “decent work for all strategy”. An essential feature of the agenda is the entitlement to social protection for everyone, an objective which is still far from being achieved. The ILO however, can play an active role in promoting the ratification of the various relevant ILO Conventions for its member countries including the ILO Convention on Equal Remuneration (1995, 100), the Convention on Anti-Discrimination in Employment and Occupation (1958, 111), the Convention on Maternity Protection (2000, 183) and the Convention on Workers with Family Responsibilities (1981, 156). To date most of these Conventions have not been ratified by the project countries.

Furthermore the ILO Pacific Regional Office can play a proactive role in advocating and assisting the National Women’s Groups in the project countries, in the review of legislation and policies to be consistent with ILO Conventions and mandate.

Evaluations need to be made to provide primary data on the effects and success of various social

⁴⁹ Survey report is available as a separate report or as part of the Fiji version of this Publication.

protection schemes that exist and how they impact women and children. This is imperative before any future schemes is implemented

Specific gender analysis and planning is imperative for the implementation of future schemes. This should include an analysis of the needs of men and women, the division of labour between men and women, the constraints and/or opportunities, particularly the discrimination experienced by women, directly and indirectly. It is also important to assess the capacities that exist

to promote gender equality in the workplaces amongst the major stakeholders if gender equality in the workplace is to be achieved.

Although outside the ambit of this report and the Social Security (SS) Project as a whole it is however highly recommended that the ILO Pacific Regional Office strengthens its capacity on gender analysis and planning to ensure that gender is mainstreamed in all its programmes and projects so as to fulfil one of the basic ILO principles.



PART III

FEASIBILITY STUDIES

- | | |
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| Chapter 9 | Social Health Insurance in Vanuatu |
| Chapter 10 | Social Security Pensions: Principles |
| Chapter 11 | Unemployment Protection: Principles |
| Chapter 12 | Unemployment Protection in Vanuatu |
| Chapter 13 | Social Assistance: Principles |
| Chapter 14 | Social Assistance in Vanuatu |
| Chapter 15 | Employment Injury Schemes: Principles |
| Chapter 16 | Worker's Compensation in Vanuatu |
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| Chapter 18 | Operations and Information Technology for Vanuatu National Provident Fund |

Chapter 9 Social Health Insurance in Vanuatu

9.1 Introduction

This chapter looks at social health insurance in two parts; *Policy Context* in the Pacific, with an overview to extend health benefits, a social security contingency, to the populations of the region given their common characteristics such as demography, the economy, and current institutional set up for the delivery and financing of health care.

The second part contains some specific recommendations and outlines an implementation plan for moving forward in expanding social health insurance in Vanuatu.

The aim of this chapter is to assist the government of Vanuatu and key stakeholders to understand the issues relating to Social Assistance Schemes and to develop specific proposals relative to Vanuatu. The outcome responded to the specific requests raised by the stakeholders and outputs from social security workshops conducted by this project.

The recent WHO publication titled *Social Health Insurance - Selected Case Studies from Asia and the Pacific*⁵⁰ provides a general framework to the policy makers and international development partners. This publication answers the key policy considerations for implementing social health insurance, and provides a thorough review of various schemes that are currently operating or have previously been administered in a number of countries in the region. A good body of literature in this publication is highly relevant for the Pacific Island Countries.

Health care financing systems that enable the entire population to be covered would, in general, include two main funding mechanisms: financing from general tax revenues, and through social health insurance. WHO, in their recent review stated that *Before universal coverage is reached in most countries, voluntary and social health insurance schemes have played an important role in expanding coverage. Of the main funding mechanisms, social health insurance, as the main*

source of health care funding is gaining greater attention in developing countries.

Examples of this policy shift are even occurring among the developed world. The Economist has recently published an article on the financing of U.K. National Health Service noting that the idea of switching to social health insurance instead of relying just on general tax revenue had been pronounced by various stakeholders since 2002.⁵¹ Supplementing social insurance revenue with general tax is also a policy that many governments like France, Germany and Turkey resorted to in order to overcome the problem of the rising costs of health care.

In this part of the Chapter, the issues specific to the Pacific Island Countries are discussed. Financing of health care in each of the five countries under this review is classified as general-tax based. It will be argued in further sections that there are potential benefits to be had by introducing social health insurance as a secondary source of revenue in addition to general tax funding. It is not suggested that all of these countries should replace their general-tax based health systems with social health insurance. Given the characteristics of these countries on which we elaborate later, there is a need to investigate all financially feasible means of raising more revenue. It is our recommendation that all of these countries should ideally spend more on health to solve the looming health problems they will face in the next decades.

The health funds should also be used more effectively. Social health insurance based health systems generally speaking have a better score card in putting strategic purchasing arrangements in place; such as buying the best health care for the population instead of funding the health inputs such as hospital beds, doctors and drugs, which most general tax based systems have institutionalised and found difficult to change, once they became the status-quo mode of paying service providers.

Many transitional economies in Eastern Europe during the past decade and a half have switched

⁵⁰ World Health Organization March 2005 ISBN 92 9022 239 5.

⁵¹ "Financing health care-Searching for a miracle solution" Aug 18th 2005 from The Economist print edition.

to social health insurance and experimented with signing capitation based contracts with the primary health care physicians to improve doctors' earnings and encourage general practitioners to open practices in rural areas. It is possible for general tax based systems to engineer purchasing mechanisms, adopting incentive-based provider payment methods to improve service quality and contain costs. Such reform policies can be considered in conjunction with social health insurance implementation where the two financing methods can borrow from each other's best practice literature.

The ILO and WHO, as two international development partners, are collaboratively promoting the concept of social health insurance in developing countries and this review is consistent with this endeavour. In short, unless an alternative health financing reform is adopted, the Pacific Island Countries face the risk of their health systems deteriorating over time. By taking the necessary action now, these health systems will avoid the looming funding shortages and decline in service quality. The conditions exist in most of the countries to embark upon alternative methods of health financing and will be discussed further in this report.

9.2 The policy context - readiness to implement health insurance

The relevant policy context for the health sector common in almost all Pacific Island countries including the five project countries, can be described as all having an *urgent need to reform health system delivery and financing to meet the growing demands of their populations*. The governments of the four and to a lesser degree Kiribati have acknowledged the need for this reform in various policy pronouncements as well as in their briefings and discussions with the consultant.

It was also identified in the Informal Economy Survey conducted by this project, how the people in general perceived the need for improving public health services and that 'health' is one of the top priority contingencies for the role of the government to provide and finance as a core government responsibility. It may thus be fair to state that the national policy climates are ripe enough to implement change. This can vary in degree of effect in the delivery and financing of health services in each of these countries.

The ILO review focuses on social security related aspects of health financing reform. In particular, it examines whether social health insurance rather than private forms of pre-payment and savings-based mechanisms can be introduced in the project countries.

It is fair to say that such reform in isolation from the reform on health service delivery may have limited success. Furthermore, over-reliance on National Provident Fund mechanisms may inadvertently cause an inclination towards extending benefits to the formal sector (or the relatively well-off), vis-à-vis the rest of the population living in the peripheral islands and village communities, economically considered as the informal sector (or relatively disadvantaged). The project preparation discussions between the Sub Regional Social Protection Specialist, the project Chief Technical Adviser and the consultancy team have reached a common understanding, that starting from one feasible point of social security extension would be considered far superior than excluding the health contingency altogether. The assessment therefore focuses on starting with the formal sector first and gradually expanding health insurance coverage to the rest of the populations.

9.3 Common characteristics of the Pacific Island states

The Pacific Island States have common characteristics which should be taken into consideration for the design of the new health care financing and delivery system that the peoples of these nations desire. In summary:

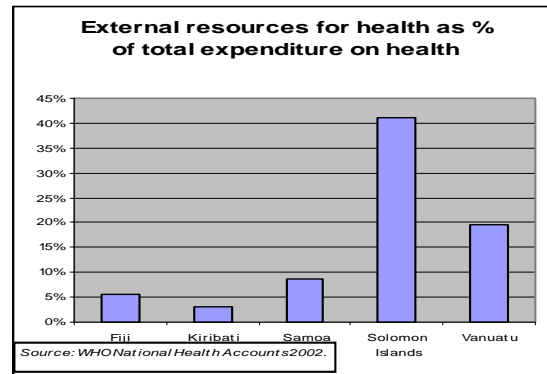
- Health care is predominantly provided and financed by the state where ministries or departments of health fulfil a range of responsibilities such as owning and organizing service delivery units, staffing and recruitment, and general policy implementation, which in its core includes public health functions such as infectious disease control, basic immunisations and maternal care, financing and implementation of health budgets provided by the state.
- All these five countries have National Provident Funds with a few decades of institutional memory. As the NPF predominantly caters for the formal sector, the reliance of the informal sector for the financing of health care will continue to be on the government.

- Public health financing is mainly through supply-side subsidies where the public-owned health delivery units receive an operating budget appropriated through the budgetary process and often implemented by the Ministries of Health.
- the Public health workforce is paid on a salaried basis. There are virtually no alternative provider payment methods implemented in any of the countries under this review such as capitation or case-based payment.
- User fees for health are becoming more common. While acute care at public in-patient care facilities is mostly free, many people in Fiji and Vanuatu consider a personal payment for health care as a natural mode of service obtainment. Private provision of services is thus growing due to increasing demand.
- All the five project countries have traditional and community based forms of social protection. Mobilising a voluntary fund pooling arrangement for a community member at time of serious illness, mainly through faith based organizations, is common, especially if the charitable contribution is considered essential for the community member to receive care outside their village/community, or even outside the country.
- Overseas referrals for tertiary care are common and all of these governments have bilateral arrangements with the host countries receiving these patients. It is also common that some people can have financial access through government funded overseas treatment programs, albeit the mechanisms for access to this benefit works less transparently.
- Disease patterns have shifted from communicable to non-communicable diseases across the Pacific. While malaria surveillance, disease control and treatment are considerably well-managed in most of the islands, the emergence of diabetes as a result of shifting dietary patterns is a serious concern. The long term repercussions of diabetes is to have more acute care beds for the treatment of advanced stage diabetes mellitus treatment including surgical

interventions (for amputations and cardiac surgery etc), and renal dialysis.

- Capital spending during the past decade for improving facilities has generally been limited. Primary level facilities and most hospitals look run-down. A significant portion of bi-lateral aid from donors is spent on improving the facilities.

Figure 9.1 Donor funding for health



Donor support is an important source of finance for most of these countries such as Vanuatu and the Solomon Islands, and to a lesser degree for Fiji and Samoa. (Figure 9.1). It is also common to engage overseas trained doctors and surgeons to work in tertiary referral hospitals, where salary payments for them are sourced from the donors. While donor (external) funded health care of Kiribati looks a paltry 3 per cent compared to the other countries in this review, the surgical specialists in Kiribati are mostly overseas nationals funded externally. Private provision of health services is increasing and all of these governments (except Kiribati where even no private pharmacies exists), are looking into more public private partnership.

In further sections of this review, we will make references to these common characteristics in order to demonstrate their relevance to the recommended policy options.

9.4 Demand for financial protection for health

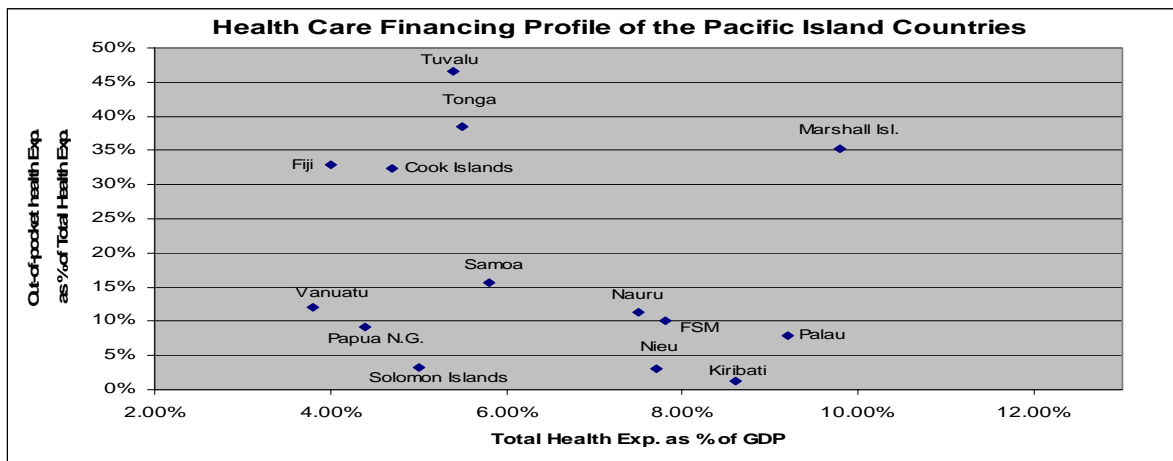
Demand for health services and demand for health insurance or more specifically *financial protection for health* follow different dynamics. While the informal sector population surveys have revealed a propensity for better health care access, it may not necessarily be translated that

the respondents are demanding a contributory type financial protection mechanism. It may well be considered that the population purely considers the government should allocate more budget for health, and that they continue to receive all, albeit better quality, health care for free. The policy climate in Kiribati was inclined towards this option rather than creating a new or additional financial protection mechanism for the provident fund members. This is not surprising given the country is a moderately high spender for health (8.5 per cent of GDP which is on par with OECD averages) and out-of-pocket payments constitute less than 3 per cent of total spending (see Figure 9.2).

If the governments' fiscal positions are sound and health is considered a priority, there is virtually no further action to take other than allocating sufficiently larger amounts for health. This, in all

five of the countries, unfortunately is not the case. The rising costs of health care is often far in excess of the level of the increase in general price levels which has pushed most governments to cut budgets and introduce cost-recovery in the form of official user fees for some of the health services. Token amounts for medical consultations or for diagnostic tests (pathology or radiology) are quite common while most acute in-patient care is provided free of charge. The demand for health insurance is closely correlated with the general notion of *how much health care is free and how much of it is for a price*. The populations of Fiji and Vanuatu have become accustomed to a user-pay based health system and in Samoa, the preference of even the rural people to be admitted to the only private hospital indicates the shift of population perceptions that health is becoming less of a free public good.

Figure 9.2 Health care financing profile



Source: Derived from data for the year 2002 in the WHO World Health Report 2005 Statistical Annex.

Figure 9.2 above reveals some of the health system specific issues pertaining to the countries under this review. The x-axis shows the share of national income spent on health and the y-axis shows the share of total spending on health that is funded out-of-pocket. Systems that are predominantly funded by out-of-pocket methods are generally speaking less equitable as the financial burden falls unfairly on the poor, aged and sicker persons. Fijian households sacrifice a large portion of their disposable income on health as evidenced from the share of out-of-pocket funded health care at around 33 per cent⁵².

Solomon Islands is a medium level spender (5 per cent of GDP) and out-of-pocket payments constitute less than 5 per cent of total health spending. Samoa, like Solomon Islands, is a medium level spender, yet out of pocket payments constitute some 15 per cent, which is much higher than Kiribati and Solomon Islands. Kiribati is a high level spender yet households are least burdened with out-of-pocket payments.

A policy challenge for the introduction of a pre-paid or contributory type health care financing system requires public support. If the health

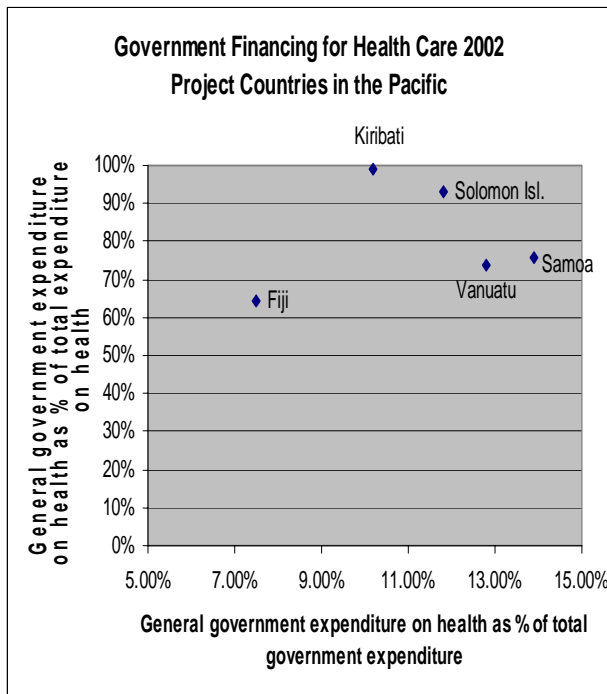
⁵² This comment has to be treated with caution. Fiji is distinctively a net recipient of foreign patients from the rest of

the Pacific islands so the high out-of-pocket percentage includes payments made by cross-border patients.

scheme is merely considered to be an additional source of income for the government without accompanying benefits such as improvement in service quality, then most members of the public will show reluctance to contribute to a prepayment, or a tax specifically for health. This was discussed with the NPF and MOH representatives to gauge the willingness of the fund members in particular and the general public to contribute specifically for health.

The policy environment in Samoa shows a willingness for the provident fund (SNPF) to take a lead for including a health contingency, albeit the approach was more of a savings-based method rather than a social-pooling based health insurance mechanism. Nevertheless, the policy makers have specifically put the option of social pooling as a special fund allocated out of deductions for individual savings.

Figure 9.3 Government financing of health care



The policy climate in Kiribati stands at the other end of the continuum where virtually no such pressure from the provident fund members exists for including a health contingency to the existing benefits provided. Despite budgetary limitations, all health care has essentially been free for decades and changing this status-quo requires a lead from more than one pressure group such as

from the members of the Kiribati National Provident Fund (KNPF) alone.

Figure 9.3, shows information about government’s role in financing of health care. The x-axis shows the percentage of total government spending committed for health. The y-axis shows governments’ share of total health spending. In all countries, governments account for more than 60 per cent of total health spending, with Kiribati being almost fully funded by the government. These shares are generally speaking favourable in comparison with other developing nations where most health is funded by out-of-pocket spending due to governments’ failure to allocate sufficient funds for health,

Health is a favoured sector among all governmental portfolios in Samoa accounting for 14 per cent of total government spending. This share is also the highest in comparison with the rest of the project countries. One reason for the high share of health is explained by having virtually no military spending in this country, whereas both Fiji and Solomon Islands, having recently experienced political turmoil, have considerably large defence sectors in competition with other governmental portfolios, such as health. Solomon Islands has a major anomaly with regards to the government’s role of providing finance to educational services. In the Solomon Islands the education sector, unlike health, has never been free and households are accustomed to a user-pay based educational system and a free-entitlement based health system. This may explain the low-demand from this community for having financial protection for health.

Samoa’s health financing reform program aims to shift part of the cost to the employers and formal sector employees as there is virtually little room left to expand government financing. Fiji, being the largest country in population among the five, has also embarked on a reform program to have a national health insurance scheme under the auspices of FNPF. The MOH of Fiji has been pushing this agenda forward while the FNPF is inclined towards a membership-based approach. MOH of Vanuatu has been considering a national social health insurance for quite some time, mainly due to policy advocacy by WHO. However, their approach is inclined towards excluding the Vanuatu National Provident Fund’s involvement in the affairs of the new insurance mechanism.

Feasibility Studies

In summary, the demand for social health insurance will be driven by two main factors:

1. how much of the health care is free or likely to remain free, and
2. how much service quality would improve with the advent of insurance.

Reducing the level of free health care will increase the demand for health insurance and this will more likely result in improvements to health service quality by the additional spending on health through insurance. People are more likely to pay for health care that provides a better quality service.

9.5 Insurance coverage issues

Assuming the project countries consider insurance financing for health care, it should be recognised that the reform will not be a zero-sum option for displacing all of government financing with health insurance. These two funding mechanisms will not be mutually exclusive under the Pacific context of reform, where the provident funds are expected to play a major role, but not necessarily the primary role, of funding health care.

In Samoa, some policy discussions have unnecessarily ended in a gridlock, where criticisms were made of medical savings (or a function of it for health insurance) to replace tax funding. None of the Pacific countries can finance all of their health spending by simply shifting the total cost burden on the formal sector. This does not make economic sense as it may render productive capacity to become overburdened and less competitive compared to the other countries' manufacturing, trade and service industries.

Health insurance is expected to play a top-up funding role. Therefore as the health insurance scheme cannot finance all of the funding needs of the health sector, details about what these funds will be used for, in terms of coverage of services and coverage of people, must be determined.

9.5.1 *Unit of coverage, compulsory and voluntary mechanisms for expanding cover*

An important aspect of social health insurance is whether the proposed schemes would cover members only, or members and their dependents. Secondly, coverage can be compulsory or

voluntary or both. Samoa's proposed National Health Care Financing Scheme has called for compulsory membership for the active contributors and voluntary membership for their dependents. In many countries, social insurance schemes are often compulsory for the formal sector and voluntary for the informal sector.

We advocate a family-based approach for coverage. This is especially important when the unit of coverage of the social security schemes during the design phase is defined. Some schemes cover workers only or may impose limits on the number of family members to control costs (i.e. Indonesia). For the Pacific Island Countries, it is recommended not to take the latter approach. All family members should be entitled to the same health benefits as the main contributor (worker or other eligible beneficiary whose contribution is paid by a third party). It is also recommended to make the schemes compulsory for the family unit as a whole.

Samoa's voluntary approach for family members was critiqued as part of this consultancy and it was recommended to make registration of all spouse and dependent children compulsory.

As a transitional step, it may be considered to make formal sector coverage compulsory, and informal sector coverage voluntary. Currently, the policy thinking in the Pacific Countries is adopting a dual-responsibility approach for financing health care. Accordingly, NPF induced insurance schemes are specifically designed to expand coverage to the formal sector (Samoa), assuming the informal economy would continue to be looked after by the government. There are limitations on the practicality of this approach which will be highlighted later in the Chapter.

9.5.2 *Membership registration, verification and contribution issues*

A major challenge exists for NPF to register dependents of the active contributors when they embark on expanding social security benefits to include the health contingency. In practice, NPF information systems keep data only about the main contributor in their databases and sometimes include a separate field for the spouse to establish survivorship. Family coverage requires modification to the NPF information systems which is well within the capacity of the Provident Funds in the project. However, a

number of considerations will come to play once the NPF become more than just an administrator for retirement savings. The following considerations will constitute part of the business rules which the legislature will need to draft in the regulations which accompany them:

- whether health insurance contributions will be levied on combined family income or on the income of the high income earner in a family with double income earners;
- whether a health insurance card needs to be issued to verify the eligibility of the members at time of contacting health service facilities;
- what length of validity period would the health insurance cards carry; whether they would be valid for the length of contributory period or have a fixed term which is renewed periodically; and
- whether the schemes would allow coverage for old age dependents on a compulsory or voluntary basis with their inclusion carrying a surcharge on premiums.

It is recommended for the countries to give lesser priority for these types of issues which relate to the operational business rules.

9.5.3 Setting premiums and rating methods

Premium is an amount paid to an insurance carrier for providing insurance coverage under a contract. It constitutes a monetary payment made in advance for a defined benefit package. Contributions are often defined as a percentage of salary (i.e. formal sector employees) or it could be a flat-amount collected periodically (monthly, quarterly, semi-annually or annually) from the informal economy and the self-employed.

The premiums are set by two methods: either by *community-rating* or *risk-rating*. Community rating sets insurance rates based on the average cost of providing health services to all people in a geographical area, without adjusting for each individual's medical history or likelihood of using medical services. With community rating, premiums do not vary for different groups of subscribers or with such variables as the group's claims experience based on age, sex or health status. The intent of community rating is to spread the cost of illness evenly over all subscribers rather than charging the sick or higher users more than the healthy. Social health

insurance schemes use community-rating. Risk-rating on the other hand involves setting of premium rates by insurers (often by private companies) for individuals and small employers by taking the health status of the insured people into account frequently pricing high-risk individuals and small employers out of the market.

Samoa's proposed national health financing scheme has legislated for a 6 per cent deduction from payroll for MediSave Scheme (an individual health savings account) and a flat amount per person for the MedInsure scheme (social health insurance) which was using elements of both community and risk-rating. The flat amount premiums were community-rated as far as earning level of contributor was concerned but risk-rated for the average family size, where large households had to pay a higher amount. If FNPF in Fiji opts to buy private group cover from a private health insurance agency, it would be highly likely that the insurer would impose risk-rated premiums to the provident fund members.

These issues will be elaborated on in the following sections. In general, priority should be the *main policy design of social health insurance schemes* rather than the business rules. The core design would define whether the scheme would be compulsory or voluntary, with or without dependent inclusion and whether premiums would be community or risk-rated. As a best practice approach, it is recommended that formal employment sector schemes to be compulsory and inclusive of dependents and premiums to be community-rated.

9.6 Organizational and functional issues

Generally speaking, social health insurance based health systems differ from general tax-based health systems with regards to the way basic functions such as revenue collection, risk pooling and purchasing arrangements operate. Secondly, a new administrative structure within the NPF or separate from the NPF may need to be set up for performing these functions. This must be assisted by a functional information system that has a strong decision-support component for assisting scheme administration, policy development and fraud control. Each of these issues are considered in the following section of the report.

9.6.1 Administration of health insurance

Given institutional presence of NPF in each of the five countries, it is feasible to entrust new responsibilities to NPF for administering health insurance.

Currently NPF perform three primary functions:

- collecting retirement savings from their members (a payroll deduction)
- managing and investing the funds
- paying out a lump sum when members become eligible (or in some cases a monthly pension).

Health benefit payments, unlike lump sum pension payments are of a recurring nature from the time health insurance schemes are implemented. The schemes require administering benefits to more than just the main contributor if dependents are also included. NPF need to assess their administrative capacity to embark upon this new social security contingency. Given the size of their current membership pools, all the NPFs in the project countries are believed to be capable of administering health insurance, yet as seen in the Fijian case, other considerations may arise which may result in reluctance of a member-based agency to administer benefits for non-contributory members or the rest of the population.

The level of public trust in the NPF is also paramount. The 1998 street demonstrations for prudential failure of Vanuatu National Provident Fund (VNPF), has resulted in some cynicism by members and the general public about the suitability of the provident fund to manage members' contributions. This is reflected in the Vanuatu MOH's approach to set up a new board accountable to MOH for health insurance administration, if the country launches a national scheme.

After FNPFs decision to assess feasibility of purchasing a group-cover private scheme for their members, MOH of Fiji is looking into alternative mechanisms such as setting up a new para-statal agency for administering health insurance benefits for non-members⁵³. Setting up separate administrative bodies for social security administration is not uncommon in the rest of the

world. The population size of Indonesia being large has been instrumental for setting up separate social security agencies like ASKES, JAMSOSTEK and JPKM catering for different population segments; respectively, the civil servants (ASKES), private industry (JAMSOSTEK) and the informal sector including the beneficiaries of free health care (JPKM and Kartu Sehat programs). In Turkey, social security is administered by three agencies, Emekli Sandigi for civil servants, SSK for private and state owned enterprises and Bag-Kur for the self-employed. However, Turkey has embarked on a reform to merge the three separate entities under a single umbrella organization like that of Viet Nam's Social Security Agency. Given the two countries have similar population sizes and sufficient corporate memory and institutional know-how accumulated over years, it may well be said that the trend is following a *single-agency* path instead of creating administrative layers and fragmenting the risk pools.

For the Pacific Island countries, a single health insurance administration is considered feasible. Setting up special divisions within NPF or independent health insurance boards accountable to the MOH may be efficient for the relatively small size of the project countries. Fiji being larger is as an exception and will be evaluated in the following sections.

If NPFs are chosen as the agency-responsible for health insurance, amendments to the NPF Acts need to be passed. Setting up new statutory authorities will require new legislation and may take longer.

9.6.2 Revenue collection

The capacity of a social insurance based health system to raise revenue is not fundamentally different from a general tax-based system. If the country in question has weak tax collection mechanisms, then a payroll based social health insurance revenue collection will suffer from the same kind of setbacks as the general fiscal management does. Social health insurance should not be seen as a panacea for solving the problem of raising all the revenue needed for funding health care. Most countries with larger rural populations in sparsely populated areas such as the Pacific have weak capacity to collect fiscal revenue. This is also true for raising revenue from those that are engaged in the informal sector, rural and urban alike. However the importance of

⁵³ A recent review by the WHO following the change of policy direction of Fiji after communications with the ILO Consultant had called for evaluating the feasibility of this option.

social health insurance revenue grows substantially larger as the country gets more urbanised and the formal sector grows bigger.

Another concern is the impact of social insurance premiums on government finances. In Pacific Island Countries, the government is a substantial employer and payroll-based taxes ultimately require the government as the employer to finance the premiums. The impact of Samoa's proposed MediSave scheme was estimated to cost the government about 1 per cent of total recurrent public spending. This cost will probably be similar for Fiji but more substantial for Solomon Islands.

Social health insurance revenue from prescribed deductions on payroll can be classified as para-fiscal income as separate from general taxes (which is purely fiscal) if the collecting agency is different from the office of general revenue. While some reviewers classify the Australian *Medicare Levy* as a type of social insurance contribution, this is collected by the same federal revenue collection agency, the Australian Taxation Office and not by a para-statal social insurance organization like the Health Insurance Commission (Medicare Australia). In principal, collections need to be enforced either by the agency specifically set up for collecting social health insurance premiums or by the tax collection agencies.

As introduction of any new taxes require public debate, advocacy and acceptance, it is not an easy undertaking to legislate a new form of tax without having a justifiable reason for it. To gain stakeholder acceptance, transitional strategies can be implemented such as the one that was proposed for Samoa. As emphasised before, public trust in the agencies which are tasked with revenue collection will always remain important.

9.6.3 Transitional strategies for the Pacific Island countries

It may be taken for granted why Samoa chose to adopt a Singapore-like medical savings scheme instead of a *traditional* social health insurance scheme. A medical savings scheme is member-based and not risk-pooled. It serves as a stock amount for the contributor unlike health insurance premiums which is essentially an expense for the member and an inflow (premium income) for the scheme administrator. The

unspent component of health insurance monies serves as a stock amount and kept in reserves for the benefit of all risk pool members, and not just for the benefit of contributing member (as in the case for individual health savings accounts). If the current benefit outlays are less than the premium revenue, health insurance accumulates reserves, and if the opposite is true then the reserves are drawn down for the benefit of all members.

The policy makers in Samoa have proposed a transitional process for readying the members for a social pooling scheme. While a 6 per cent contribution for medical savings is prescribed by the legislation, neither is this entire amount allocated for recurrent health spending as a pooled fund, nor considered a saving for future health expenses only. It is currently envisaged that about a third or quarter of total medical savings would be socially pooled, and the remainder will be invested for future retirement savings. The proposal was made attractive to the SNPF members by presenting *Medisave* as a cashable amount additional to the retirement lump sum if not spent during the working life of contributor.

It is too soon to make conclusive remarks about the strategy chosen by Samoa. However, it is recommended that the other project countries monitor progress in Samoa, as well as developing their own transitional strategies. For instance, the path favoured by FNPF to purchase group cover is expected to have limited success due to moral hazard issues prominent among private schemes. However it may also be taken as a transitional strategy to build pre-payment scheme know-how, which would eventually yield itself to become administered by the member's own agency (FNPF), or by a national health insurance authority.

(i) Risk pooling

The existence of NPF in the project countries has its advantages and disadvantages. In one regard, it is much easier to raise revenue through an institutional setting that has established statutory presence. NPF can easily collect payroll-based deductions specifically for health from members' pay in addition to the retirement savings. On the other hand, these institutions are set-up to protect and safeguard the interests of their members only. Broad-based risk pooling may not necessarily be in the best interests of the members, if the

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members are to be risk pooled with the rest of the population who have lower capacity to pay.

This very phenomenon is considered to be the root problem for the lack of consensus between FNPF and the MOH of Fiji, and to a degree between MOH of Samoa and SNPF. FNPF is not willing for their members to become part of broad-based risk-pooling. It can also be concluded that this agency prefers not to be the administrator of a national social health insurance scheme for the non-members.

Given Fiji's population, it may well be considered to have a fragmented risk pool - one for the formal sector (administered by FNPF), and one for the informal sector (administered by a new agency under the auspices of MOH). As a best practice approach, it is generally recommended for countries to have a single-risk pool, or simply a national social health insurance scheme. However, if the reform program is hindered by divergence of opinion among various stakeholders, it may well be suitable to implement transitional steps where population risks are pooled separately.

(ii) *Benefit package*

The benefit package constitutes an important element of any health system design whether social insurance or tax based. In essence the benefit package defines the population entitlements to health care and provides guidance on inclusions and exclusions. The likely role of health insurance financing is a top-up funding option to tax, and the two sources not being mutually exclusive. As a top-up option, policy makers need to establish what services (benefits) will be financed by health insurance and what will be financed by general tax, and who will benefit from these different sources of revenue.

During the design of health insurance schemes, most policy makers become pre-occupied with preparing detailed fee schedules for a couple of thousand or more medical and pharmaceutical benefits with varying degrees of co-payments which may be applied *to* or waived *from* various types of beneficiaries. Bosnia and Turkey are currently reviewing their existing schedules and Malaysia is aiming to develop a whole new scheme. This process unnecessarily burdens the non-experts and delays the core reform program. It is highly recommended to separate the two issues which relate to benefit package design:

- Population entitlements to essential health care are not synonymous with a schedule of medical and pharmaceutical benefits. An essential benefit package is a short communiqué to the general public, in simple non-technical language that everybody can understand, what the government or a social insurance scheme warrants paying. As an example, an essential benefit package can be defined as all general practitioner consultations or contacts made at government owned health stations/clinics (instead of using the term primary care), all referred hospital care (instead of acute in-patient care), and essential drugs (instead of pharmaceutical benefits);
- A detailed schedule of medical and pharmaceutical benefits is a product developed for the health administrators from both provider side (doctors, clinics, hospitals) and financing side (insurers and agents like the ministries of health, finance, social security etc). The schedule contains an itemised list of medical and surgical procedures and interventions, treatment regimens, pharmaceutical products, medical supplies, prosthetic and orthotic appliances etc.

For expanding social security benefits in the Pacific Island countries, the focus should be on whether the health contingency would be included in the scope of work of the NPF, or alternatively whether a national health insurance administration should be set up. Irrespective of the option chosen, clear guidance should be issued to what each agency will provide, and for which segments of the population.

The entitlements of the social insurance scheme members in dual-funded systems should be defined separately. The key issue here is how to separate the financing responsibilities which arise from the existence of two funding sources (social health insurance and taxes). In established health financing systems where universal health insurance is the norm, such as the National Health Service of U.K. and Medicare of Australia, all of the population has a defined health entitlement. If the proposed policy changes recommended by the project in the Pacific Island countries occur, then the issue of *who provides and funds what* will become a policy issue.

The following display presents alternative packages of care that can be funded by general taxes and by social insurance taking the system characteristics of the Pacific Island countries into account.

Generally speaking, tax-funded benefits are best suited for those that are provided by public owned health service delivery units, whereas social and private insurance can contract with both public and private providers.

The dual responsibility issue for funding different packages of care has been highlighted in the review of Samoa National Health Financing Scheme proposal undertaken by this project. It was recommended that clear responsibilities for financing packages of care should be established once the SNPF starts collecting health insurance premiums. The practical examples include financing of renal dialysis which is already done by the government for the whole population whether they are members of the SNPF or not.

Box 9.1 Alternative benefit package design for Pacific Island countries by source

- ✚ General Tax funded benefits (from Public Providers only)
 - Primary Care:
 - Rural health
 - General Practitioner Consultations
 - Basic immunizations
 - Maternal care
 - Primary Dental and School Dental
 - Essential drugs
 - Chronic Care
 - Renal dialysis
 - Diabetes patients
 - Cancer patients
 - Medical Evacuation Overseas
- ✚ Social Health Insurance funded benefits and benefits provided to the beneficiaries of government funded Social Safety Nets for Informal Sector/Poor (from both Public and Private providers)
 - Acute in-patient care (apart from chronic care)
 - Specialist consultations and hospital outpatient services
 - Diagnostic services (pathology and imaging)
 - Ambulatory medical drugs (not covered by the essential drug list)
 - Overseas referrals (apart from Medical Evacuation)
- ✚ Supplementary Benefits (Social or Private Insurance funded and public or private provided)
 - Specialist Dental
 - Optometric
 - Elective surgery
 - Elective overseas referrals

The SNPF scheme in essence provides benefits only for acute in-patient care services. In other words all out-patient care either at primary or secondary level would continue to be funded by the state in the same way that it is now funded. The problematic issue concerns high cost acute care like renal dialysis which is already funded by state and whether these types of benefits would continue to be funded in the future after the SNPF scheme starts. For clarity, it is recommended to establish mutually exclusive funding responsibilities for the government and the SNPF. This recommendation applies to the rest of the project countries who wish to embark on social health insurance.

One final consideration with regards to the benefit package design concerns the private health insurance industry. In established health systems where universal cover is the norm, private health insurance policies mostly provide cover for the excluded services (such as dental, optometric etc) and elective procedures which can be done immediately at any private health care provider without being on the public provider waiting list. In such systems, the private health insurance becomes a supplementary cover scheme rather than positioning itself as a competing scheme to the scheme being provided by the government. Benefits excluded from the two main financing sources (taxes and social health insurance) can be included in supplementary insurance policies which can be offered by the social insurance agency itself by applying surcharge on current premiums or by private insurance companies as shown in the last part of Display 4.

(iii) Contracting with providers: balancing public and private provision

One advantage of social health insurance based health systems is the advantage the administering agencies have vis-à-vis tax based systems to purchase best possible health care for the beneficiaries. Purchasing is a function which involves contracting with the health service providers, public or private alike and agreeing on certain terms including those that relate to quality of care and the method of payment.

Public and private partnerships in provision and financing of health care often create controversies between various stakeholders which could well be ideologically driven (such as social/egalitarian

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versus liberal/market competition approaches etc). For an objective view on this matter, reliance on evidence rather than siding with a particular ideology is essential.

Health systems which provide more choice are generally speaking more efficient than those that have only one type of provider. This holds true for purely private provided (and often funded) systems such as that of US which is not as cost-efficient as systems where public sector has a predominant role. In effect, existence of both public and private health care providers and social and private insurance can be considered more desirable than having a single choice. On the other hand, dominance of the private sector in both provision and financing of care is often a recipe for a faster increase in health care costs in comparison with systems where public has a more dominant role. Social health insurance funded systems often serve well for finding the right balance between public and private provision of health care.

One of the issues raised by the SNPF in Samoa was members' willingness to have access to better quality care including private hospital services. In the broad context, the SNPF scheme aims to create competition between public and private providers. One of the arguments that were put forward was the possibility for the MOH to open private wards to tap into revenue from the SNPF financing (insurance and medical savings). This is labelled as public/private partnership.

Solomon Islands is also considering whether to allow right-of-private practice for their government employed doctors in order to improve their salary levels. Unlike Samoa, this approach is expected to tap into private revenue sources (private insurance from Police and Teachers Association schemes and out-of-pocket/user pay funding). While this is well-intentioned, it is often difficult to establish how much of the doctor's time should be spent on public and private patients separately. Right of private practice often yields doctors spending more time with private patients and could well be a perverse incentive as has been evidenced in Turkey and becoming increasingly more common in Australia. After government's deliberate efforts to increase private insurance membership in Australia, specialist doctors who see their patients in public out-patient wards are increasingly recommending their patients see

them at their private clinic to reduce waiting times.

After successive years of public service quality decline, Turkey is considering the proposed universal social health insurance scheme to become the sole agent for purchasing private health care. The aim is to have a lever on the control of incomes of doctors who practice privately. The Australian experiences can not be generalised due to differences between rural, urban and metropolitan practices. It is believed that rationing is taking place to some extent where low income earners, who have more time to spend at public waiting rooms, are opting for public provision and employed people with moderate/high incomes and less time to wait at public centres are opting for private insurance and private provided care.

An important dimension for the Pacific Island context is consideration of which health insurance administrators may opt for contracting with providers overseas. The options may include purchasing/financing whole medical teams to visit host countries to perform screening and surgical operations on scheduled time-frames as well as having a contract with them for sending patients to be treated abroad.

The success of Samoa and Solomon Island policy initiatives can only be evaluated in the long term. It is expected that health insurance will constitute an additional source of income to the public and private health service providers alike. It is recommended that policy makers operationalise social health insurance before providing incentives for the private sector to flourish. This will create a more balanced public and private provision of health care.

(iv) Provider payment methods

The design consideration should take provider payment methods into account. If user fees are applied, it may be considered that the formal sector social insurance scheme may pay for these fees while the excluded populations would have to pay them out-of-pocket. It is not a priority to adopt a payment mechanism that is based on fee for service. It may well be possible for the insurance agency to establish a different payment method with the health care providers on terms that are different to what is applied to the general public.

Full literature on various provider payment methods and their potential advantages and disadvantages can be found in published sources including the latest WHO review of Social Health Insurance Schemes in Asia and the Pacific. The following table (*see Display 5*) from WHO's draft paper titled *Strategy on Health Care Financing for Countries of Western Pacific and South-East Asia 2006-2010* provides an overview of various provider payment mechanisms that are currently applied today.

Instead of providing a literature review, we would like to highlight the main policy focus to the project countries in the Pacific. It is highly recommended to adopt payment methods that provide incentives to health service providers for improving service quality and establishing presence at close-to-client locations.

When Bulgarian and Romanian national health insurance agencies started to offer capitation based contracts to primary health care physicians

(who were previously paid a salary), a good number of general practitioners chose to open rural practices and a sizable number of specialist doctors of internal medicine, paediatrics and general surgery started to provide primary care services in addition to specialist services.

These types of provider payment options can be engineered by the MOH regardless of whether social health insurance schemes are introduced or not. Furthermore, the benefit package design is highly interlinked with the method of payment each financing agent (MOH, the NPF or the national health insurance authority) may choose. The exclusion of primary and secondary level out-patient care services in Samoa means the SNPF can not offer capitation-based contracts to general practitioners. For acute in-patient care services provided to SNPF insured members, it was recommended by this project consultancy to adopt a case-based method instead of fee for service.

Table 9.1 An overview of provider payment mechanisms

Payment mechanism	Unit of payment	Economic incentive	Foreseeable effects
Fee for service	Medical procedures	<ul style="list-style-type: none"> Maximise number of medical procedures 	<ol style="list-style-type: none"> Limited prevention High Technology Supplier induced demand generation Rate discrimination Inequalities
Salary	Time worked	<ul style="list-style-type: none"> Minimize work effort 	<ol style="list-style-type: none"> Importance of salary raises and promotion Growth planning Circumstantial cooperation and competition among physicians
Capitation	Payment per registered person, based on membership or affiliation, and estimated cost of care	<ul style="list-style-type: none"> Maximize number affiliation Minimize costs 	<ol style="list-style-type: none"> Prevention Referrals Risk selection Under-servicing
Per diem	Payment to a hospital per night stayed per patient	<ul style="list-style-type: none"> Maximise number of stays Minimise average cost of stays 	<ol style="list-style-type: none"> Increased average length of stay Reduced cost of stays Unnecessary hospital admissions Reduced outpatient and day surgery
Per case	Payment to a hospital per admitted patient regardless of length of stay	<ul style="list-style-type: none"> Maximize number of admissions Minimize average cost of each admission 	<ol style="list-style-type: none"> Increased admissions Reduced average length of stay Readmissions Unnecessary hospitalizations
Budgets	Payment to a provider for an undefined activity within a period of time	<ul style="list-style-type: none"> Minimize costs Cap total spending 	<ol style="list-style-type: none"> Expensive implementation Compatible with planning Room for provider to manoeuvre

Source: Adapted from "Paying Health Care Providers in the Caribbean", Pinto M. Andersson B. WHO Pan American Health Organization, 2001.

Reprinted from "Strategy on Health Care Financing for Countries of Western Pacific and South-East Asia 2006-2010" WHO Western Pacific Regional Office, June 2005.

Similar policy reforms need to be considered depending on how the benefit packages are designed, how the provider lobby groups such as medical and nursing associations in the ILO project countries would welcome introduction of new provider payments and how well various stakeholders collaborate and participate in health sector or health financing reform.

Another issue relates to accounting and billing processes that need to accompany provider payments. Under a free-of-charge health system funded through a budgetary process with periodic cash or bank remittances to the health service provider, there is little a provider can do with a third party payer like an insurance agency. This has been an issue for Samoa's health system in general. While user fees are applied per night of stay at hospitals, the charges are considerably low (token fee) which are not commensurate with actual cost of care, nor are they considered to be the basis of charging SNPF for members' health benefits.

The public health systems in most Pacific Island countries especially Kiribati, Solomon Islands and Samoa have very little experience with accounting and billing systems suited to a fee-for-service type of environment. Even in Samoa where the health service provider can collect statutory charges from third party payers like Accident Compensation Corporation and the SNPF for the Senior Citizens Benefits Scheme, cost-recovery from them has been very small. Only private providers in Fiji, Vanuatu and one hospital in Samoa have accounting and billing systems which can be considered as a source of information for negotiations between a third party payer (insurance agency) and a provider on contractual terms that are agreeable by both parties.

It is not necessary for health insurance to assume a fee-for-service type provider payment method. Regardless of the chosen method, the policy makers may choose to collect co-payments for some health services from both insured members and the rest of the population which are not insured by the insurance scheme, yet eligible for tax-funded benefits. The Samoa proposal for instance called for co-payments for acute in-patient care which was critiqued by the project review. While we endorse high cost interventions to be covered by insurance schemes in order that they provide financial protection to the members, collection of affordable co-payments from some

services in order to circumvent excessive consumption or moral hazard⁵⁴ for non-essential services may need consideration.

(v) *Information systems*

It is highly recommended that an information system that can cater for dealing with third party payers is developed by the providers in order for health insurance to assume a meaningful role as a financing agent in the health sector. This information system does not have to be complicated and could well be developed on native decision-support platforms or desktop productivity software suites like MS-Excel (Spreadsheets), MS-Access (database).

Both hospitals (providers) and NPF (financing agents) need to have a functional information system which at the least should possess some interface that monitors health service use and expenditure. The active membership sizes of NPF in the project countries except for Fiji are manageably small. Therefore they don't demand a complicated transaction processing system as most large social insurance agencies elsewhere in the world use. All NPFs in the project countries possess a transaction processing system for managing retirement contributions, investments and fund withdrawals. Depending on whether personal loans are provided to the NPF members, some information systems like Samoa's possess typical credit grant, loan servicing and monitoring components. It is most likely that only minor capital and software development expenditures would be sufficient to scale the existing information systems of the NPF to accommodate a health insurance scheme. This may be another consideration for choosing the NPF option for introducing health insurance instead of setting up a new authority or agency specifically for health insurance.

9.7 Extending coverage to the informal sector - poverty focus

9.7.1 *Government-funded social safety nets*

An important factor which may impede project countries from taking action on introduction of social health insurance is the existence of the informal economy, often a large segment of the

⁵⁴ Moral hazard in insurance parlance refers to abuse of insurance benefit by insured people which yields to an increase in health expenditure.

population which has very little capacity to pay contributions. Social safety nets, not just for health but for other contingencies such as old age, educational access for the poor etc are considerations which all governments have to accommodate in social policy design. Without providing a full literature review on definitional aspects of social safety nets, we would like to emphasise the importance of designing social security systems which possess equity and solidarity traits in their core design.

Protecting the poor and vulnerable from ill health and poverty due to illness can be accommodated within social health insurance design. As previously mentioned, the Pacific Island countries already provide funding for health care, often through the supply side subsidies. Social safety nets need to be designed if the current supply side subsidies fail to deliver good quality and sufficient amount of health care to the population and the policy makers then resort to cost recovery by introducing user charges for government provided care. This manifests itself with the amount of out-of-pocket funding for health care.

The share of out of pocket funding for health care in total health spending as demonstrated in Figure 9.2 provides an insight into the workings of health financing systems in the countries. In general, the five project countries apart from Fiji do not have large out-of-pocket payments for health. Yet the national averages may conceal that rural and poor people often sacrifice more of their disposable incomes for health care in comparison with the urban and rich. Apart from official fees, indirect costs of health care such as patient transport, expenses of accompanying family members for those who are hospitalised, and hidden costs such as loss of income during illness all place unfair burdens on disadvantaged people. Social insurance schemes may help alleviate the negative impact of these factors.

A government funded social safety net can change the direction of subsidies in order to improve financial access of those people who have low capacity to pay. Turkey, Viet Nam and Indonesia have all set up government funded social safety nets for health. The *Greencard* scheme in Turkey, the *Health Care Fund for the Poor* in Viet Nam and *Kartu Sehat* program in Indonesia provide cover to about one fifth of the populations in Turkey and Viet Nam and one tenth in Indonesia. Instead of providing bulk funding for all of the citizens in the provider

budgets (hospitals and clinics), the governments may prescribe a premium amount per beneficiary and direct the subsidy to a purchasing agency such as the national health insurance authority. This option can be achieved in a way that is cost-neutral to the government. The same amount that is currently being spent or should ideally be spent on the poor can be set as a government contribution to the social health insurance scheme.

If the legislation of NPFs in project countries are modified to administer health benefits, the demand-side subsidies can be directed to these authorities who would then contract with the health care providers and channel the funds accordingly. The main advantage of a demand side subsidy is its superiority to make *money-follow-the-patient* rather than *money-follow the provider* who may or may not provide care if the population that needs the services is unable to access health care. Demand side subsidies may bring more transparency and accountability to the system as some countries have learned over years.

Viet Nam's experimentation with free health insurance cards for the poor in the past decade has indicated that even with the demand side subsidies, the poor had difficulty in financial access. More reform was introduced to bring the services to the populations that most need them. The changes included that entire ethnic, rural and remote communities were funded by the government by making incentive payments to the health care providers that provide services to the poor, disadvantaged and ethnic minorities.

Within the evaluation of the National Health Financing Scheme of Samoa, the negligence of the informal sector and the poor was evidenced in the core design. It was recommended to the policy makers to consider a demand side subsidy which can be paid directly to the SNPF. This agency has already been administering a government funded scheme for the senior citizens and hence another government funded scheme which provides health insurance for the poor is not fundamentally different to the former. SNPF as the national administrator of the health insurance scheme can purchase health care to the eligible members on the same contractual terms as has been done for the contributory members, shoring up solidarity and improving risk pooling. This option will most likely receive little attention at the moment but could well be experimented

after five to ten years of implementation of the formal sector health insurance scheme.

The same policy may be considered by Fiji. In essence, if government funding for health care is limited, it is more equitable to prioritise funding health care for those that have no capacity to pay instead of providing low quality and low amount of care to the whole population.

9.7.2 Community-based financing and voluntary health insurance schemes

Community based financing, sometimes referred to as micro insurance does exist in many communities in the Pacific yet their level of effectiveness in providing financial protection to those that are suffering from ill health is undocumented. Community financing can be charity based like those provided by faith-based organizations where voluntary contributions are put in a common pool for handing out cash benefits to sick members. More advanced community based schemes take the form of a local community organization such as village administration, rural health clinic or a non-governmental organization administering the scheme. In Vanuatu, the Trustees Board of *Ifira*, a relatively well-off island community, is paying monthly cash benefits to their senior citizens and they were considering an inclusion for a health contingency.

For Pacific Island Countries, community-based health insurance would likely be of limited success. It is recommended that the government either ensures physical and financial access to rural and remote island communities through the supply side subsidies as they currently do or through social safety nets as explained above by changing the direction of the subsidies to the demand side.

Pacific Island countries have also experimented with voluntary health insurance through professional associations. Teachers Unions/Associations in Vanuatu and the Solomon Islands and Police Association in Solomon Islands have voluntary health insurance schemes that provide supplementary cover often for private outpatient medical consultations and drugs. The schemes cover the workers and their dependents yet they all experience the same kind of problems which any voluntary scheme faces

such as adverse selection and to a limited extent, moral hazard. However, the existence of such schemes should be considered an advantage for these countries. The concept of pre-payment for health care among the formal sector is well established and populations in these islands demand better access and better quality health care.

It may thus be suggested for the Pacific Island countries to consider voluntary schemes for the informal economy which may use flat-amount premiums (rather than a percentage of earnings). This however has to be considered after organization and administration of health insurance is decided. NPF's can offer voluntary health insurance schemes to non-members similar to voluntary retirement contributions which have been experimented in Kiribati. In summary, it should be well established that voluntary schemes are highly susceptible to adverse selection and moral hazard yet many countries implement them in order to offer some financial protection for their citizens.

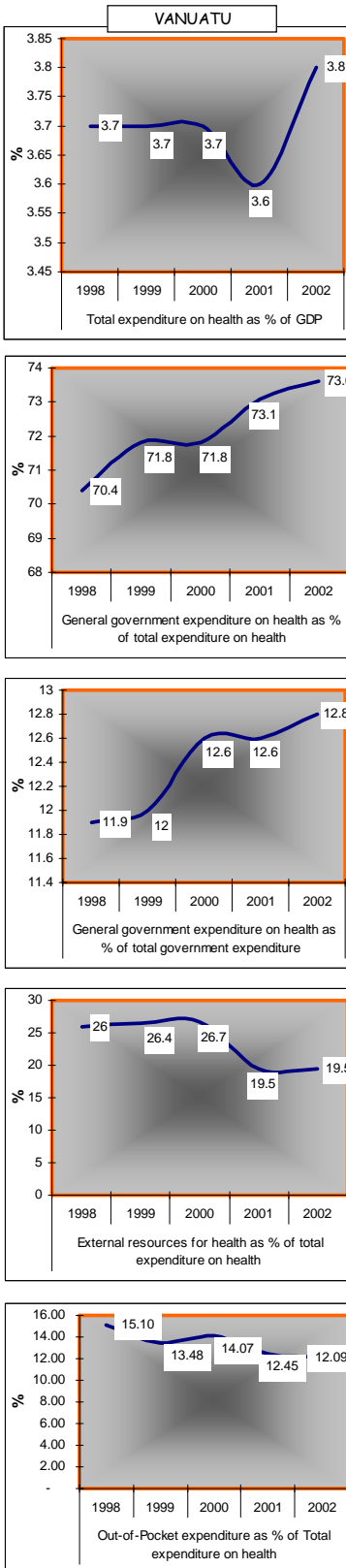
9.8 Country reviews

In this part the basic health financing profile of Vanuatu is presented followed by a description of the policy context. The profile was prepared by using the latest National Health Accounts (NHA) data available at the WHO web site⁵⁵. The policy context is based on written information made available to the Consultant as well as through communication with various stakeholders during the Consultant's visit to the Pacific.

⁵⁵ See www.who.int/nha/en for English language web site of country profiles and NHA data between 1997-2002. There has been a restatement of Vanuatu NHA data series from 1997 since they appeared in the Statistical Annex of World Health Report of 2003. We use the latest available information which covers 1998 to 2002.

9.9 Vanuatu

Figure 9.4 Shares of health funding in Vanuatu: 1998-2002

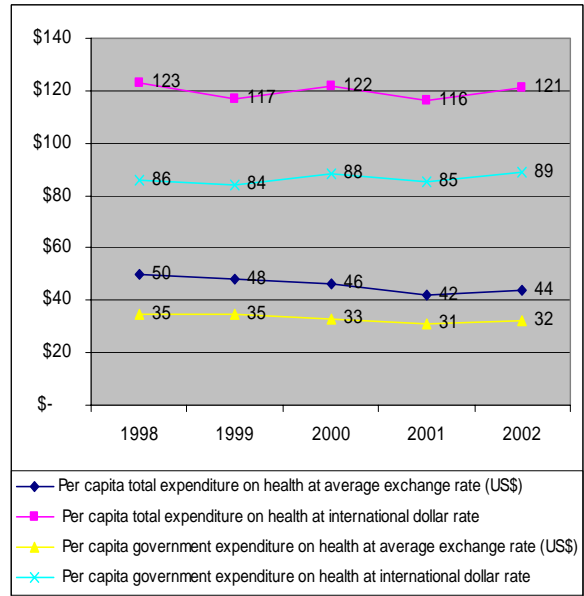


9.9.1 Basic Profile

Vanuatu is a low-level spender in terms of share of health spending as per cent of national income and a medium-level spender in per capita terms. Health spending has levelled to around less than 4 per cent of gross domestic product in the past five years.

Government's share of health spending, though at a slow pace, has consistently been rising from about 70 per cent in 1998 to 74 per cent in 2002. Although not as high as Samoa, health accounts about 12-13 per cent of total government spending. Similar to Solomon Islands, Vanuatu also has a high population growth rate and is a recipient of substantial external funding for health.

Figure 9.5 Per capita funding for health care in Vanuatu: 1998-2002



Although population growth rates are not as high as Solomon Islands (2.7 per cent growth per annum between 1993-2003 with a total fertility rate of 4.1), per capita health spending has barely withstood its historical average and has fallen recently. In purchasing power parity terms, health spending per capita has gone up slightly in 2002.

The share of donor funding for health has recently reduced from about 26-27 per cent to less than 20 per cent. Out of pocket funding for health care is much higher in comparison to Solomon Islands and Kiribati yet lower than Fiji and Samoa. Surprisingly, the share of out-of-pocket funding for health care has fallen from more than 15 per cent in 1998 to about 12 per cent in 2002.

9.9.2 Policy context

(i) Recent reviews on social health insurance implementation

WHO conducted a mission in February 2004 to assess the feasibility of introducing social health insurance in Vanuatu. The mission report concluded that Vanuatu has the socio-economic potential and prerequisites to introduce social health insurance, noting that there is willingness among the population to participate in health insurance. This finding has also been verified by the informal sector survey which was conducted as part of this ILO project. In terms of

administration, the February 2004 WHO review recommended the national compulsory scheme to be established by the VNPF.

A World Bank funded country study on health status and services undertaken by Associate Professor Roy Harvey from University of Wollongong, Australia has also noted that as the government was considering the development of social health insurance policy, a number of important pieces of information needed to be gathered to assist the design. Information gaps included household expenditures on health, the types of services provided, the levels and amounts of payments, and the characteristics of people and households who incur the costs, information about the health status of the households who use and don't use health services and the amount of household expenditure on government funded services. The review noted that there seemed to be no source of information on the levels of fees and charges in the government health sector and while charging practices were found, very little was recorded by the MOH financial system.

Roy Harvey's estimates using the 1998 Household Income and Expenditure Survey data indicate that private doctors could well be earning about 10 times as much as doctors employed in government hospitals in 1998. As the government was considering the role of social health insurance, the income differentials between the public and private sector were a factor to be considered. Any insurance arrangement that provides subsidises to private sector providers has the possibility of encouraging doctors in the public sector to leave the civil service. This, Mr Harvey notes, can result in the transfers of health professionals from health facilities that provide services to low income households and people in remote communities to health facilities providing services to high income urban populations. The analysis of the 1998 survey estimates that the income of about 6 private doctors was 15 per cent larger than government expenditure on all dispensaries and health centres in Vanuatu.

The report concludes that in considering the policy options for social health insurance, particular attention needs to be given to the differentials between incomes of private doctors and doctors in the government health facilities; and, the possible impact that the structure of subsidies or payments might have on public

sector workforce levels and on the availability of services to rural and remote communities.

(ii) Policy stance of VNPF

The General Manager of VNPF was briefed on the findings and evaluations from social health insurance initiatives in the other Pacific Island countries, especially focusing on Samoa. The VNPF is inclined to expand social security benefits however the first priority is between pension or housing benefits and health contingency comes secondary. The Board of VNPF as part of this project is expected to review all options and subject to Board guidance on the selection decision of the first-level priority contingency the agency can consider reviewing social health insurance.

(iii) Policy stance of MOH

The author attended the Executive Board Meeting of Department of Health (MOH) and conducted discussions with key board members. The Board briefed that the recurrent budget of MOH has been suffering from cutbacks for a number of years. The current financial year being no exception the agency was pressed to consider alternative financing arrangements. The WHO health financing review and the recommendation of introducing social health insurance was well received by the Executive Board of MOH. Following this review, the Department of Health presented the recommendations to the Council of Ministers for a formal opinion.

The Executive Director stated their agency's viewpoint on this matter which was inclined towards setting up an independent board, council or commission for health insurance implementation, which would be under the auspices of the Department of Health. A new law or act on health insurance would be needed for defining the roles and functions of this new body. The MOH is already considering an independent board for supervision of health service delivery (Health Services Board) and in their opinion these two boards would have clearly separated scope of work one for financing and one for provision of health services. The submission for setting up of Health Services Board is pending approval from the Council of Ministers, which if approved would be likely to be set up in April-May 2006.

The Executive Board requested joint WHO and ILO assistance for drafting of the health insurance law.

The MOH is not willing to entrust VNPF with the revenue collection. A number of people have also noted VNPF administration being lengthy, slow and less responsive to the members needs. The Department's policy stance was also discussed with the WHO Country Liaison Officer who explained the 1998 street demonstrations following the prudential failure of VNPF would be the likely reason for their reluctance.

Cooperation links should be established between MOH and VNPF as it is not considered feasible for the proposed independent board on health insurance to be an effective agent to collect payroll tax contributions from the formal sector. This would create administrative complexity for the employers who would then have to deal with VNPF for retirement savings and with the MOH Board for the health insurance contributions. As the public trust issue is important, it should be established that VNPF has not ceased to operate following the 1998 street demonstrations and the legislature has reinstated their status to continue with administration of retirement benefits. It is believed that the public trust will be regained once the VNPF administration establishes itself as a responsive agency for protecting social security needs of the population.

(iv) Community-based initiatives

Discussions were held with Ifira Island Trustees Board and Foundation for Peoples of South Pacific. Meetings with the Teachers Union to review their health insurance scheme was not possible within the dates of this mission.

The Ifira Island Trustees Board being a well-off island has commercial income from rent, stevedoring and shipping services. The Board of Trustees provides cash benefits to the senior citizens and scholarships for special trades. Out of total 1200 who reside in Port Vila of Ifira origin, 120 to 150 people are full time workers and members of the VNPF.

The village, island or community chiefs in modern day Vanuatu society still play a role in terms of establishing eligibility rules for special benefits like those that Ifira Trustees Board provide. Based on the Island Chief's advice, some 150 community members above the age of 50 are eligible for senior citizens benefits. The Board does not provide health insurance benefits as such yet the trust fund has paid out the medical bills of overseas treatment referrals for a few individuals

who needed treatment abroad. The consultant explained that the cost of one overseas treatment which according to some ballpark figures provided by the Board of around USD 50,000 could well be used to pay a package of services for the whole community, which can be arranged through a contractual arrangement with the hospital and a health care centre in Port Vila.

The Ifira case is exceptional in the sense that there is virtually no need for a community pooling of funds. The business income of the island as a quasi state system of non-tax revenue (as in the case of Kiribati government's collection of fishing licenses from foreign boats) can be used to pay social security benefits including health.

The meeting with the Foundation of Peoples of South Pacific, an NGO, focused on identifying whether community based health insurance schemes may operate within some remote areas and whether the NGOs can play a role in mobilising people, collecting premiums and bringing health services to the community. The Director of the NGO noted that little in terms of revenue can be raised through the subsistence farmers and fisherman in remote village communities as such. The informal sector on the other hand has some associations and cooperatives (i.e. Fishermen's Association, Land Transport Workers, Seamen's Association etc) which may be organised similar to that of the Teachers Union. These agencies may be better suited for setting up pre-payment schemes for health.

Such community based channels may play some role if a voluntary type health insurance policy is offered by the proposed Health Insurance Board/Committee or by the VNPF if this agency includes health contingency in the scope of their work in the future. In Viet Nam, social security agency's voluntary farmer health insurance policy is actively marketed by Women's Unions, Youth Unions, Farmers Unions and the like. This scenario would possibly be more suitable for Vanuatu instead of independent schemes running like that of the Teachers' Union.

9.9.3 Recommendations

1. The Council of Ministers should evaluate the proposal of the Department of Health (MOH) to set up independent boards for Health Services and Health Insurance.
2. The Department of Health should collaborate with the VNPF to explore the option of allowing VNPF to perform revenue collection function for health insurance. The option of setting up a new/separate body for health insurance benefit administration can go hand in hand with this option.
3. A study should be conducted to review incomes of private medical practitioners as well as charges that are applied at public health facilities in order to assess the true level of user payments for health.

9.10 Implementation plan for expanding cover

In this section, we present a tentative implementation plan for Pacific Island countries under this review to introduce social health insurance and/or to expand social security benefits to include health.

Firstly, we can think of two broad approaches to stage an implementation plan for the expansion of insurance coverage:

- Expanding coverage to various population segments: formal/informal, rural/urban, and level of income in population targeting. (Referred as *width* of coverage);
- Expanding the breadth (scope) of health benefits: This considers issues like what benefits would be provided and paid by the government, what would be paid by the social health insurance scheme as well what services at primary, secondary and tertiary level would be covered by these two main financing agents. (Referred as *depth* of coverage).

The two approaches are not mutually exclusive. It may well be considered to expand health insurance to the formal sector first with a narrow benefit package of acute hospital in-patient care, only assuming that relatively high cost nature of these events would allow sufficient financial protection to the covered persons.

Secondly, policies can be engineered in a coherent way by sequencing of the key interventions which would ultimately impact the perceptions of the general public in health care, and communicate the policy maker's chosen solutions which address them. The following sequence is complementary to the two broad approaches described above:

1. Introducing compulsory health insurance for the formal sector;
2. Introducing user fees, often commensurate with the actual cost of care for selected services;
3. Establishing social safety nets to protect the poor;
4. Introducing voluntary health insurance to the rest of the population; and
5. Gradually integrating all schemes under a single risk pool and improving the breadth of coverage.

Coherent and well sequenced strategies have been implemented in many countries. In Vietnam for instance the government introduced broad-based user fees simultaneously with social health insurance for the formal sector starting with the civil servants and state owned enterprise employees. The policy on user fees communicates to the general public that health care which was previously free is no longer so. However, this was not implemented to displace tax-funded health care altogether which dates back to the times when the country organized its policies along socialist lines.

The safety-net policy aims to provide financial protection for some segments of the population who are not part of the formal sector social health insurance scheme. Preferably, and often deliberately by the legislature, fee exemptions are applied to protect the poor and disadvantaged (or those with no capacity to pay) from the financial burden of user fees.

In the fourth phase voluntary health insurance schemes are introduced for the rest of the population, especially the informal sector, for them to join pre-payment schemes instead of being subjected to high user fees at time of illness. The voluntary farmer scheme of Viet Nam which has originated from the core principles of community based health insurance is now a full-fledged government run health insurance scheme covering more than 600,000 people (2005). Before this scheme was

developed, students have been voluntarily insured for more than a decade which had generated sufficient know-how to the implementing agencies for expanding coverage.

It has been evidenced in many supply-side funded systems that user fees, regardless of their magnitude, play a role in directing the subsidies to the relatively well off who can afford them. In the absence of social safety nets, user fees create complexity and unfair burdens to those that have no financial protection. Ideally the second (introduction of user fees) and third (setting up social safety nets) interventions should be done simultaneously in order to protect the population from falling into poverty due to ill health.

For Pacific Island countries, a similar sequencing pattern of policy initiatives is recommended. Extending social health insurance can be planned by starting from the formal sector or specifically the provident fund members. In the second stage, the governments may give some price-signals to the public by introducing user charges to some services. This should not aim to introduce cost-recovery as an alternative financing mechanism to that of general taxation. Fees can be introduced to low-volume health interventions which do not place unfair burdens on the relatively sick and high volume users. Private consultation rooms, diagnostic services, private wards and non-essential drugs can be considered under this category in order to generate demand for better quality health care. This may pave the way towards more insurance participation (demand) once they are on offer.

Thirdly a government funded social safety net can be developed for the poor and disadvantaged. In terms of income distribution classification, this safety net should ideally cover the lowest income quintile or the poorest one fifth of the country. All elderly persons with or without retirement security can be considered next, assuming those who have no retirement income would be eligible to the government funded social safety net developed during the second phase.

The remaining population without health insurance cover at the end of the third stage would normally come from the income distribution classes of quintile 2 (lower-middle), quintile 4 (upper-middle) and quintile 5 (rich). The formal sector or provident fund members often represent quintile 3 (middle income) and part of quintile 4 (upper middle).

Usually members of the upper two income quintiles who are not part of the formal sector (provident fund members) are the most reluctant to be part of a social pooling scheme. Given their level of incomes, the members of these groups prefer to self-insure themselves, obtain health care mainly from private providers and pay out-of-pocket when a need arises. The second phase of interventions is in fact developed to tap on revenue that can be generated from this demographic.

This group, being from the informal sector, is different to subsistence farming and fishing communities and is the hardest population segment for expanding social insurance cover. The policies to include them in a national insurance scheme need to take some other considerations into account, the most important of which is their level of direct and indirect tax contributions. If they are considered as being lightly taxed or untaxed, which is often the case, then the only possible way to encourage insurance participation is through voluntary means. However, the level of voluntary participation will highly depend on the level of user fees imposed by public and private providers.

If social safety nets are well established to protect the poor as has been suggested under the third phase, it may well be considered to impose high official fees to create demand for voluntary health insurance. Level of user fees on the other hand has to be highly commensurate with the level of service quality. If service quality at public owned units is low, then imposing high user fees will simply drive high income groups out into private (including overseas treatment) if the acute care specialty is only available within public hospitals.

It is envisaged that expanding health insurance to the relatively well-off populations will probably be an issue after ten years of social health insurance experimentation in the Pacific. It is recommended that the policy makers of the project countries should prioritise the formal sector and the poor and disadvantaged segments first.

The final phase can be called the *Integration Phase* which is expected to be some five to ten years away from the implementation of the first phase. Integration involves gradually moving the three separate schemes; the formal sector health insurance scheme, social safety nets and the

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voluntary health insurance members, under a single risk pool and possibly under a single administration. This “one roof” strategy is what Turkey has embarked on after half a century of experimenting with four separate schemes with disharmonised health benefits. If the schemes run under separate administrations, it is highly likely that they would evolve in different ways where some segments may have more comprehensive or better breadth of coverage (i.e. the formal sector) while the others are provided with limited health benefits (i.e. the social safety net beneficiaries). This path would foster inequalities between people covered under separate schemes and

generate inequitable distribution of health service consumption.

In order to strengthen solidarity which stands at the core of social health insurance, integration should be the ultimate goal. Once the schemes are fully integrated under a single risk pool, it is easier for the policy makers to harmonise the benefits as well as evaluating the option of expanding the breadth of coverage.

Chapter 19 provides a road-map as a guide to the implementation of health care financing reform in Vanuatu.

Chapter 10 Social Security Pensions: Principles

10.1 Introduction

This report is provided in the context of the Social Security in Pacific Island Countries project implemented by the International Labour Office. It deals with the main issues which provident fund board members and executives, public servants, other stakeholders and the wider public raise concerning statutory retirement protection systems set up by governments. The report is in the form of questions and answers. Recommendations for further reading are provided.

10.2 Why do Governments enact legislation about social security retirement benefits?

Another way of asking the question is ‘Should people not be left to look after themselves and their dependants after they retire’? Much attention is paid to the form, qualification conditions and administration of retirement benefits, but the basic question, why or whether governments should be involved, is now only raised by those who favour a diminished size and role of the state or who embrace an anti-statist ideology. It is useful to recall why governments enact legislation pertaining to retirement benefits.

Germany established **social security pensions** (or **public pensions**) at the end of the 19th century in response to the social conditions which had resulted from the industrial revolution.

Reasons for government action include:

- The current consumption needs of workers in wage and salaried employment often leave them with little or no funds to save for their retirement.
- Even if they have funds which they could save, workers are often myopic. They fail to set aside funds for their retirement or underestimate the amount which they should set aside. A scheme with tax-favoured worker and employer contributions can generate the funds necessary for a retirement protection scheme.
- In societies which have heretofore supported older persons through strong extended
-

- family and clan links, these links are weakening as a result of industrialization, urbanization and ageing of populations.
- Mandatory retirement provisions protect members of society from having to support others who have been improvident.
- Governments seek to meet the needs of society, and they no doubt bear in mind the increasing numbers of retired persons whom they wish to be satisfied voters.
- A public pension system based on **risk pooling** (sometimes referred to as a **social contract** between generations or **solidarity**) can be designed to provide for redistribution, for example within a generation, from high to low income earners or from healthy persons to those who become disabled.
- If the state is responsible for paying civil servants’ pensions, a public scheme covering all persons in wage and salaried employment in the public and private sectors can relieve the state budget from (some of) the cost of non-contributory civil servants’ pensions.

It is generally accepted that governments have an implicit – and sometimes explicit in the constitution – obligation to organize systems of social protection for the persons for whom they are responsible, and to ensure that the schemes are properly governed. At the same time, participants in the schemes – workers and employers – have an obligation to abide by the conditions of the social security scheme. If any of these conditions is unfulfilled, the social security scheme will fail.

10.3 How has public retirement protection evolved?

The years of recovery and economic growth and the independence of former colonies following World War II were a time of development and expansion of social protection. The landmark ILO Social Security (Minimum Standards) Convention 1952 (No. 102) provided a framework and guidelines for national social security schemes. This Convention became the basis for ILO advice to policymakers and the

establishment of social security schemes in developing countries.

In many former British possessions, a form of **defined contribution** scheme, a **provident fund**, was set up around the times they became independent. Often the principal objective was to create domestic capital and it was thought that a lump sum at retirement was appropriate given national social circumstances. Outside of the South Pacific most national provident funds have been converted into social insurance pension schemes (sometimes with a small retirement lump sum as well), for example, in the English-speaking Caribbean, Ghana, India, Nigeria and Tanzania. The Singapore Central Provident Fund has introduced compulsory annuities.

In the 1970s, in the industrialized countries economic conditions (e.g. the ‘oil shocks’) led to a period of diminished growth and consequent consolidation of the gains in social protection which had been made in the previous 25 years. It became clear that lower rates of economic growth would not permit unlimited expansion of social protection – the schemes had to take into account not only social security needs, but greater attention had to be paid to the national economies in which they operated. In Chile, the failure of multiple social security schemes led to the introduction in 1981 of a new system of providing pensions which has had an impact on public pension schemes elsewhere in the following decades.

After 1990 the transition countries which had followed the Soviet system of state budget financed social security had to reform their social security protection schemes. In 1994, a World Bank publication⁵⁶ promoted the adoption of public pension systems based on the Chilean model. Elsewhere, financial and demographic realities – which have often been breathlessly and irresponsibly asserted in the media – have led countries to re-examine their public pension schemes to assess whether they are meeting their objectives and whether they are financially sustainable. Are schemes meeting the needs of workers in the face of current and likely future labour market conditions – part-time, casual, teleworking and clandestine employment, homework, increasing female participation in the labour market?

⁵⁶ Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth, World Bank, 1994, Oxford University Press.

10.4 Who is covered by public pensions? Why has coverage not expanded?

The contributory retirement benefit schemes which were set up in developing countries in the 1950s and 1960s were founded on the basis of the development models which were in vogue at that time. It was assumed that as wage and salaried and self-employment expanded, the social security schemes which had been established for these workers would gradually expand to cover most workers, just as had happened (or was happening) in the industrialized countries. For a number of reasons (e.g. national macro-economic mismanagement, high rates of population growth, the effects of structural adjustment measures) in developing countries the expected expansion of formal employment beyond civil servants and workers in still nascent private sectors has not occurred. Instead, national social security schemes providing retirement protection typically cover around 20 percent of workers. The vast majority of workers in self-employment, in subsistence agriculture and in the informal economy remain uncovered.

In recent years, attention has focused on how to provide retirement protection to uncovered workers. Clearly, except perhaps for smallholders who sell produce to a central marketing agency, a contributory social insurance scheme is not generally applicable. To meet this need, the ILO and the World Bank both advocate social pensions.

10.5 Why should the main retirement benefit be a pension?

In other words, ‘What is wrong with lump-sum benefits’? While evidence is largely anecdotal, it is widely agreed that lump sum payments at retirement are rapidly dissipated due to immediate consumption by the recipient and his or her family, extended family and clan. There may also be traditional and religious obligations which the recipient uses the lump sum to fulfil. There is little evidence that recipients of lump sums (who were in wage and salaried employment before retiring) have been able to use them to set up successful small businesses.

Lump sums provide very limited retirement protection, and whatever protection they might provide is further reduced if members can

withdraw part of their lump sums before retirement, for example by taking non-repayable loans or advances or pledging their provident fund balances as security for loans. While the reasons for these withdrawals may be justifiable – housing, redundancy, education, marriage – allowing these payments (or potential payments in the case of pledges) means that the provident fund becomes a **compulsory savings scheme** from which members may draw under certain circumstances, not a retirement benefits scheme.

In a provident fund, each member bears the investment risk, the risk that the fund's investments will produce inadequate returns and his/her savings will lose their real value. The **objective of a retirement benefit** is to produce a continuing, regular, dependable income throughout a person's retirement years and after his/her death provides protection to the immediate survivors. Only a pension which is inflation adjusted can achieve this protection.

This does not mean that a lump sum should not be paid at retirement. Indeed, some of the obligations of retiring persons may require a lump sum, and in any event it would be difficult to change entirely from a lump sum payment to a pension scheme. But, the principal benefit should be a pension. Whether and what amount of lump sum can be provided depends on the total contribution rate.

10.6 Does converting VMPF balances into annuities provide adequate retirement pensions?

Recognition that lump sums provide inadequate protection has led some provident funds to let members voluntarily opt for an annuity, i.e. payment of the lump sum in the form of pension for the life of the retiring person or the joint lives of the retiring person and his/her spouse.⁵⁷ While this is a positive step, conversion of provident fund balances into annuities fails to provide adequate pensions for the following reasons:

- Provident fund balances generally produce inadequate annuities, especially when members have made withdrawals from their accounts before retirement;

- Annuities lose their real value when they are not adjusted to take into account increases in the cost of living;
- Members cannot estimate the amount of the annuities they will receive in advance;
- Provident funds generally have low retirement ages which result in small annuities.

In any event, voluntary social security arrangements are notoriously unsuccessful.⁵⁷

10.7 What is adjustment (indexation) of pensions? Why is it necessary?

Inflation erodes the purchasing power of pensions which are not adjusted to take inflation into account. For example, if the annual inflation rate is 3 per cent, an annuity of \$1000 is worth only \$863 after 5 years, \$744 after 10 years, \$63 after 15 years and \$554 after 20 years. Hence, a person who used \$1000 to buy a basket of goods and services at retirement would be able to buy barely half of the same basket 20 years later. If the annual inflation rate were 5 per cent, after 20 years the basket would have been reduced to almost one-third the size it was at the time of retirement.

Pensioners can be protected against this loss in the purchasing power of their pensions by adjusting pensions to take inflation into account. In the preceding example, the pension would be increased annually from \$1000 to reach \$1159 after 5 years, \$1344 after 10 years, \$1558 after 15 years and \$1806 after 20 years. In this way the standard of living of a pensioner is protected since the pensioner can always buy the same basket of goods and services. Some schemes also let pensioners participate in workers' productivity gains by adjusting pensions according to the rate of wage increase rather than the rate of consumer price inflation.

10.8 What retirement protection is possible for workers without regular incomes?

Traditional social security schemes are contributory – workers and employers both contribute to them. Workers without regular incomes include workers in the informal

⁵⁷ Even with favourable annuity rates, according to the Fiji National Provident Fund Annual Report for 2003, the annuity take-up of retiring members was only 37%.

economy⁵⁸ and in self-employment and subsistence agriculture. These workers have no employers, and their capacity to contribute (voluntarily or otherwise) as self-employed persons is very limited. Inviting self-employed persons to voluntarily join a contributory scheme generally does not attract many of them.

In recent years, attention has focused on how to provide social security protection to these uncovered workers. Clearly, a contributory social insurance scheme is not generally practical. To meet this need, the ILO and the World Bank both advocate **social pensions** (also referred to as **universal pensions**, or **citizens pensions** when they cover citizens only).⁵⁹

Social Pensions do not aim at replacing workers' regular incomes – the persons they are designed to protect do not have regular incomes. Rather, they seek to alleviate or prevent poverty by providing a fixed periodic payment related to the national level of subsistence. Typically, they are paid to all residents (or citizens) over a relatively high age. They are financed from general taxation, and generally cost from one to two per cent of GDP. Means-testing would appear to reduce the cost of social pensions, but this requires an extensive assessment system and creates the potential for abuse and corruption. Social pensions paid to persons who do not need them can be 'clawed back' through the income tax system.

Social pensions can be administered by the institution which operates the contributory social security scheme, or by another branch of government which has the infrastructure required to make the monthly payments. In the South Pacific region, Kiribati and Samoa have social pensions. Elsewhere, they are found in Brazil, Botswana, Namibia and South Africa.

Social pensions can obviously be abused for political purposes – promising higher pensions or a lower pension age. A statutory mechanism to control potential abuse should be set up, for example, a requirement that the legislature receive an actuarial study of the budgetary

implications of any proposed change before the change is enacted. To help avoid politically motivated increases in social pensions, automatic adjustments to take into account inflation could be applied.

10.9 What retirement protection is possible for wage and salaried workers?

Retirement protection of workers in wage and salaried employment seeks to replace a portion of their incomes at the time of their retirement and to smooth workers' consumption over their working and retirement lives. From the ILO Social Security (Minimum Standards) Convention No. 102, for an average wage earner with a spouse of pensionable age, the minimum income replacement pension after a full working career (30 years) is 40 per cent of the worker's earnings at retirement. Pensions are also payable to workers who become disabled and to the survivors of workers or pensioners who die. To finance their retirement pensions, workers give up some of their income while they are working in order to receive regular incomes after they retire.

This sort of retirement protection is provided through a public social insurance pension scheme. This is a defined benefit scheme where the pension is defined by a formula. For example, the retirement pension formula could be 1.5 per cent of a worker's pensionable earnings times the number of years the worker has participated in the scheme. After 30 years of contributions, this formula would produce a replacement rate of 45 per cent of the worker's pensionable earnings. In practice, more complicated formulas are usually applied. The formula should relate the pension directly to contributions made by a worker and be designed to avoid abuse. For example, when the retirement pension is calculated according to a formula which applies a worker's earnings near retirement to the period during which the worker contributed to the scheme, there is a potential moral hazard since workers can seek to manipulate the timing of their contributions and the pensionable earnings used to calculate their pensions in order to reduce their contributions and inflate their pensions.

In the mid-1990s an innovative approach to defining and financing public pension schemes, **notional defined contribution** (NDC) accounts, was developed. During the accumulation period a NDC scheme operates like a provident fund

⁵⁸ The broadest definition for the informal economy includes those workers who do not receive regular income and have no contractual or enforceable employer/employee relationships. This usually includes self-employed, casual and unpaid workers in family businesses and those not registered or subject to labour laws.

⁵⁹ *Age and security* published by HelpAge International has an excellent explanation of social pensions.

except that the notional accounts are not credited with annual interest, but are revalued annually in accordance with an index (e.g. the rate of increase in wages or in GDP). When a benefit is payable, the notional balance of an individual's NDC accumulation is converted into periodic pension payments. Contributions are used to pay current pensions on a pay-as-you-go basis; hence members' accounts are 'empty', and their accumulations are 'notional'. Members cannot know the amount of pension they will receive in advance. The NDC system is applied in Sweden, Italy, Poland and Latvia.

In a defined benefit scheme workers can know in advance the proportion of their pre-retirement earnings that will be replaced by a pension, and the pension can be adjusted to reflect increases in the cost of living after retirement. The scheme can permit **redistribution** both within and between generations, for example by providing a minimum pension subject to strict qualifying conditions.

In the past, public social insurance pensions were often designed to provide the only retirement protection, and replacement rates were sometimes 70 per cent or more after a full working career. The current approach is to build retirement protection from a number of components (called pillars or tiers) where a modest public social insurance pension, is Pillar 1. For example,⁶⁰

- Pillar 0* Social pension payable to all citizens or residents (financed by the state budget).
- Pillar 1* Public social insurance pension (financed by workers' and employers' contributions).
- Pillar 2* Occupational or personal pension plans.
- Pillar 4* Personal savings.

What are the risks of a public social insurance pension scheme? If the scheme is too generous, it can become unsustainable. There is also the political risk that the government will alter the benefit formula (although governments do this at their peril). Unlike a provident fund, the investment risk is borne by the defined benefit scheme (and ultimately the government as guarantor of the scheme).

If a provident fund is converted to a pension scheme, members' service and contributions under the provident fund must be taken into account.

10.10 What is an appropriate retirement age?

Clearly, the **normal retirement age** or **pensionable age**, the earliest age when members who fulfil other qualifying conditions (e.g. years of service) can begin receiving full retirement pensions has an important effect on the cost of a social insurance pension scheme.

In a social insurance pension scheme, retirement means ceasing gainful economic activity. It does not include quitting one job and taking up another. If a pensioner continues working, his/her pension may be reduced to take into account the pensioner's earned income. Members sometimes have the option to retire before the normal retirement age (usually up to five years earlier) and receive reduced pensions, or they can defer their retirement until after the normal retirement age and receive increased pensions.

Normal retirement age in Pacific Island national provident funds is 50 (Kiribati, Solomon Islands) or 55 (Fiji, Samoa, Vanuatu). From the point of view of a provident fund's finances, the age when a member can receive his/her provident fund balance is immaterial. The fund simply pays the individual member's own balance and there are no financial implications for the fund or other members of the fund.

This is not the case in a social insurance pension scheme where members' contributions are pooled and payments are made to a retiring member for the rest of his/her life and to his/her survivors. A low retirement age means that the scheme would be too expensive – the contribution rate would be too high and/or the public pension scheme could not be sustained. As a rough guide, a pension payable from age 55 costs 15 to 20 per cent more than the same pension payable from age 60, and if the pension is payable from age 65, it costs 20 to 25 per cent less.

Table 1 shows the **life expectancy** at birth and at age 60 for persons in Pacific Island countries. Life expectancies for selected industrialized countries are included for comparison. Life expectancy at a specific age is the average number of additional years males and females at

⁶⁰ These pillars are based on a World Bank definition.

that age could expect to live if current mortality levels observed for ages above that age were to continue for the rest of their lives. For example, in Fiji a newborn is currently expected to live to age 69.8 and a person aged 60 to age 76.3.

In setting the retirement age for a social insurance pension scheme, it is the life expectancy at higher ages which is important. In OECD countries the most common normal retirement age is 65, and in developing countries it is 60. In many countries the ratio of average working years to average retirement years is approximately two to one. For example, in Table 10.1, in South Pacific Island countries the projected 2025/30 life expectancy at age 60 is around 20 years. The average working years would then be ages 20 to 59 and the average retirement years ages 60 to 79. An appropriate retirement age for a social insurance pension scheme would be age 60, and the current retirement age should be gradually raised to age 60.

Retirement age must also be set to avoid persons retiring when their skills are still needed. A low retirement age is often perceived as a partial solution to youth unemployment – retiring persons are replaced by unemployed youths – but evidence that this happens in practice is lacking. From *World Population Ageing 1950-2050*, in 2000-2005 the under age 15 population in most Pacific Island countries is around 40 percent of the total population (33 percent in Fiji). By 2045-50 this youth population is projected to decrease to 20-25 percent of the population (18 percent in Fiji). Under this scenario, the problem of unemployment will gradually diminish, and then the issue is apt to be maintaining a work force which can produce output for the entire population.

Table 10.1 South Pacific Island countries – life expectancy at birth and age 60

Country	Age	1950/55	2000/05	2025/30	2045/50
Fiji	0	52.5	69.8	74.7	77.8
	60	-	16.3	19.0	21.0
PNG	0	34.7	57.7	67.9	73.2
	60	-	13.7	16.6	18.7
Samoa	0	46.0	70.0	75.5	78.0
	60	-	17.5	20.1	21.4
Solomon Is.	0	45.4	69.2	75.2	78.3
	60	-	16.1	19.2	21.4

Country	Age	1950/55	2000/05	2025/30	2045/50
Vanuatu	0	42.0	68.8 ²	74.2	76.5
	60	-	16.8	19.2	20.5
Micronesia ³	0	52.0	73.1	77.4	79.5
	60	-	18.6	21.0	22.4
USA	0	68.9	77.5	81.1	82.6
	60	-	21.8	24.0	25.1
UK	0	69.2	78.2	81.4	83.0
	60	-	21.5	23.8	25.0
Australia	0	69.6	79.2	81.4	83.0
	60	-	22.6	24.0	25.1
Japan	0	63.9	81.5	85.6	88.0
	60	-	24.4	27.6	29.5

Source: *World Population Ageing 1950-2050*, Population Division, United Nations Department of Economic and Social Affairs (ST/ESA/Ser.A/207), New York.

² From table 2.1 of the *Demographic Analysis Report of the 1999 Census of Vanuatu*, joint (male and female) life expectancy at birth is 67.3. For urban areas, it is 71.9.

³ Including Kiribati, Guam, Nauru and successor states to the Trust Territory of the Pacific Islands.

10.11 What is the effect of population ageing?

Population ageing – the process whereby older persons become a larger proportion of the total population – is the result of two decreases, first in fertility rates and then in mortality rates. The decrease in fertility rates means that on average fewer children are born per woman over her reproductive lifetime. The drop in mortality rates results in increases in life expectancy (see table 10.1). Population ageing has profound national social, economic and political implications.

The demographic effect of population ageing can be illustrated by the **support ratio** – the potential number of persons aged 15 to 59 per person aged 60 and over. Table 2 illustrates support ratios in Pacific Island countries from 1950 to 2050. Support ratios before 2000 are subject to data deficiencies. Those for 2025 and 2050 are based on population projections. Support ratios for selected industrialized countries are included for comparison.

Table 10.2 South Pacific Island countries – support ratios

(potential number of persons aged 15 to 59 per person aged 60 or older)

Country	1950	1975	2000	2025	2050
Fiji	10.8	12.4	10.7	4.9	2.5
PNG	9.1	14.2	13.6	9.3	5.3
Samoa	12.3	16.1	7.6 ¹	9.1	4.3
Solomon Is.	16.9	9.6	12.1	10.3	6.1
Vanuatu	11.5	11.4	10.6 ²	8.0	4.6
Micronesia ³	19.3	13.8	8.0	5.5	4.2
USA	4.8	4.1	3.9	2.3	2.0
UK	4.0	2.9	2.9	1.9	1.5
Australia	4.9	4.7	3.9	2.3	1.9
Japan	7.4	5.5	2.7	1.5	1.1

Source: Based on *World Population Ageing 1950-2050*, Population Division, United Nations Department of Economic and Social Affairs (ST/ESA/Ser.A/207), New York.

¹ The year 2000 support ratio for Samoa is affected by substantial out-migration.

² From table 2.1 of the *Demographic Analysis Report of the 1999 Census of Vanuatu*, the support ratio is 10.3.

³ Including Kiribati, Guam, Nauru and successor states to the Trust Territory of the Pacific Islands.

Taking Fiji for example, in 2000 there are 10.7 potential workers to support each person aged 60 or more. In 2000 it is projected there will be only 4.9 potential workers per aged person and in 2050 there will be 2.5. The support ratio decreases by about one-half between 2000 and 2025 and by one-half again in the next 25 years.

In Pacific Island and most developing countries, the pace of the reduction in the support ratios is rapid, much more rapid than it has been in the industrialized countries. Hence, developing countries have much less time to adjust to the ageing of their populations. Decreasing support ratios place a greater burden on the working population. In countries such as those in the South Pacific with strong family, kin and community social **support systems**, these systems will be put under rapidly increasing strain as the support ratios decrease. Social pensions payable to all and social insurance pensions payable to retired formal sector workers can mitigate this strain, and thereby help to maintain communal support systems.

10.12 How are social insurance pension schemes financed?

The financial system of a social security pension scheme refers to the manner whereby funds are made available to pay benefits. Funding refers to creating a reserve fund, which generates investment income that along with contributions is used to pay future pensions. A defined contribution scheme (e.g. a provident fund) is fully funded – the total of individuals' accumulations is (or should be) equal to the reserve fund. At the opposite extreme is the pay-as-you-go financial system, where no reserve funds are set aside and current benefits are paid from current contributions.

In the industrialized countries, mature public social insurance pension schemes are often financed on the pay-as-you-go system and there are low or no reserves. In new social insurance pension schemes in developing countries, where for many years there will be relatively few pensioners compared to contributors, contribution rates are set to create reserves under a partially funded financial system.⁶¹ This is necessary in a new scheme because for many years the total annual pension payments will increase since:

- the number of pensioners will increase as new retirees qualify for pensions;
- increasing longevity means that pensions will be paid for longer periods;
- the average amount of new pensions will increase:
 - since new retirees will have more years of service.
 - since new retirees' pensionable earnings will increase along with increases in their earnings;
- pensioners will receive cost of living increases in their pensions.

Under a partially funded financial system, the contribution rate to pay pensions and produce the desired level of reserves is set for an extended period (e.g. 20 years). The contribution rate must be increased in the future depending on the actual experience of the scheme.

Contributions to social insurance pension schemes are pooled. There are no individual accounts or balances attributable to each member.

⁶¹ The public systems in Canada, Japan and the USA are partially funded.

Rather, each member has an account which records his/her accrued rights to a pension. Consequently, there are no personal accounts from which members can borrow. Any loans by the scheme to members must be repaid and be on a commercial basis.

Provident fund members are used to having their personal individual accounts, and are apt to resist pooling their contributions to provide pensions under a social insurance pension scheme. Even if the average period of payment of a pension after age 60 is now over 15 years (see table 1), they are concerned that they might die early and not receive all their contributions back in pension payments. A pension scheme can be designed to guarantee that the payments to a pensioner and his/her survivors will be equal to at least the total amount of his/her contributions to the scheme.

10.13 Is a financial system based on full funding better than a partially funded system?

No matter how they are financed, all pensions are transfers of resources from active workers to inactive retired persons at the time the pensions are paid. Amounts paid in pensions, which pensioners then convert into goods and services that they consume, are equal to consumption (and investment) which workers forego. The goods and services which workers and pensioners share must be produced by workers at the time pensions are paid. Under the pay-as-you-go system the transfer is direct through contributions (or taxes) paid by workers. Under the funded system, pensioners liquidate assets which they have accumulated by selling their assets to workers. In both cases, and in the case of partially funded schemes, workers' disposable income is reduced by the amount of resources transferred to retired persons.⁶²

As the demographic burden increases (i.e. support ratios decrease) workers must support increasing numbers of pensioners. In a pay-as-you-go financed scheme it is uncertain whether the declining relative proportions of active workers have the capacity to pay the pensions of increasing numbers of pensioners. But funding a pension scheme does not reduce this burden, since it is uncertain whether there will be a systemic decline in asset values when pensioners

seek to realize their assets by selling them to the same declining relative proportions of active workers.

Support of increasing numbers of retired persons is possible only if output grows – only if economic growth is sufficiently robust to generate the resources to be transferred to retired persons without unduly depriving active workers. The fundamental issue is whether the system of financing pensions causes output to increase. Like provident funds, the reserves of a public pension scheme increase output only if they can be productively invested.

10.14 How do social insurance pension schemes promote national economic development?

One reason – perhaps the principal one – why provident funds were set up was to generate domestic savings for national development. The proposition that a provident fund or (partially) funded pension scheme stimulates economic growth is intuitively persuasive. A funded scheme should increase saving and the increased saving should result in increased investment and thereby increased output. Empirical evidence of the funding/savings link has, however, been inconclusive. The second component of the proposition – increased investment leads to greater economic growth (and not simply inflated asset values) – depends on the availability of efficient and productive investments. This is problematical in countries with underdeveloped national capital markets.

Funded social security schemes may be seen as instruments for developing domestic capital markets. A vibrant capital market requires laws governing the ownership and transfer of property, a reliable banking system, a functioning securities exchange and effective regulation of financial institutions along with the will and capacity to enforce the regulations. While funded social security schemes can help to develop capital markets, the basic financial infrastructure is a prerequisite. Fiscal measures may be a more effective means of developing national capital markets.

The principle objective of a public pension scheme is retirement protection. Other objectives are subsidiary. National economic growth is necessary to sustain the scheme, and the scheme

⁶² Owner occupied housing is an exception to the transfer from active workers to pensioners and assets which are sold abroad do not involve a transfer of domestic resources.

must be financed and operated in order to promote economic growth.

10.15 What governance is appropriate for a social insurance pension scheme?

A sound governance structure is essential if any social security scheme is to meet its objectives. Sound governance means that persons involved in the governance and operations of a social security pension scheme recognize their responsibilities and exercise them with integrity, and that they are made responsible and culpable for their actions (or inactions). They must bear in mind the long-term perspective of pension schemes which extends for generations.

The *first level of governance* is the political body which enacts the scheme. The legislation should be of an enabling nature so that the normal operations of the scheme can be conducted without interference. For example, if a scheme must seek legislation to implement an increase in pensions to take into account inflation, it may well decide to forego the increase since the ensuing debate would result in a review of the entire scheme. A public social security scheme should report annually to the legislature on its operations, and at specific intervals (e.g. every five-years) the legislature may schedule a thorough review of the scheme.

The *second level of governance* is the board of directors of the social security scheme. The responsibilities of this governing body should be consistent with the overriding objective of the social security scheme which is to pay the promised benefits. The board must strive to maintain the financial sustainability of the social security scheme by monitoring and managing the risks associated with the scheme, including in particular the demographic, financial and broader economic risks. As in a provident fund, internal and external auditing of the accounts of the scheme is necessary. Periodic (three or five yearly) actuarial valuations of a public pension scheme should be undertaken to assess whether, under the financial system adopted, the contribution rate and expected investment income are sufficient to finance future benefits and sustain the scheme.

Despite tripartite representation (with worker, employer and government representatives) on the governing bodies of most social security schemes (as set out in ILO Convention 102), boards'

governance has often been inadequate. Governing bodies are becoming more representative with the appointment of other elements of civil society (e.g. pensioners), and on some boards members with specific expertise are appointed. Board members must act as trustees/custodians of members' contributions to the scheme. They have a fiduciary responsibility and should be held legally culpable for actions they take which are not in the best interest of the members of the social security scheme for which they are responsible.

Everywhere, boards of social security institutions are asserting their independence, especially their independence from interference or influence by government or politicians. This does not mean that the board acts without reference to the framework established by the legislation or the policies of the government. Nor does it preclude appropriate consultations with parliamentary and government officials or other government agencies. Governments are the ultimate guarantors of social security schemes, and governments have a legitimate interest and responsibility for the schemes.

While governments appoint board members, they should not be able to remove a board member on a whim or if the member's position on an issue is contrary to the wishes of the government. The relationship between social security institutions and governments should be more like the relationship between central banks and governments.

The *third level of governance* involves the management and administration of the scheme. Clearly, managerial and technical competence is critical, and these attributes must be properly rewarded in order to attract and retain high calibre staff. It is the scheme's managers and technicians who provide advice to the board and ensure that clients of the scheme are properly served.

Sound governance of a social security scheme leads to improved client service, increased transparency, informed debate, performance standards and improved compliance. It creates public confidence in the scheme. Members appreciate that the scheme's principal objective is to provide them with social protection, and that it is seeking to achieve this objective in an open manner.

10.16 How can social security funds be productively invested?

A sound governance structure is a prerequisite for the effective investment of provident fund or public pension scheme funds. The International Social Security Association has developed *Guidelines for the Investment of Social Security Funds* which deal with setting investment objectives and the organization of the investment process (see <http://www.issa.int/pdf/GA2004/2guidelines.pdf>).

The board of the social security scheme should appoint an **investment committee** responsible for developing an investment policy and investment strategy, recommending the policy and strategy to the board, overseeing implementation and evaluating effectiveness. Like the board, the investment committee should be independent from political influence or interference. Since a provident fund or a partially funded pension scheme is often the most important financial institution in a country, appropriate consultations must be held with government officials and agencies, notably the ministry of finance and central bank. But this does not mean that government should be able to direct or dictate the scheme's investments, interfere in the scheme's operations or (in the worst case) plunder the scheme's assets. While the views of national financial authorities are a legitimate consideration in setting the investment policy and strategy, they should not be involved in implementation of the strategy.

There are two **primary objectives** for the investment of social security funds:

- **security** – the investments should assist the social security scheme to meet its commitments in a cost-effective way;
- **profitability** – the investments should achieve maximum returns subject to acceptable risk.

A subsidiary objective, **social and economic utility**, may also be taken into account. Investments with social and economic utility can include, for example, some private sector initiatives and state enterprises; low-cost housing; health, transportation and communications infrastructure; old-age facilities; tourism; and projects such as student loans which develop human resources. These investments can make substantial contributions to economic growth, however their economic rates of return may not

be reflected in short-term financial rates of return. By contributing to national economic growth, these investments can improve the long-term financial status of a social security scheme by ultimately increasing the number of members and their earnings and the rate of return on investments.

There should be well-defined criteria for determining the circumstances and extent the social and economic utility of an investment will be taken into account. Where investment in a particular venture is considered desirable by the government and/or the board of the social security scheme but the returns are likely to be below market rates, the investment should be structured so that a subsidy is provided to the scheme from other government resources in order to avoid compromising the fiduciary responsibilities of the social security scheme to its members. If an investment is insufficiently secure for the investment of social security funds, a government guarantee should be sought.

The *Investment Guidelines* provide that 'No minimum level of investment should be prescribed for any given category of investment'. This applies in particular to **government securities**. Some governments have simply absorbed the investments of social security schemes, sometimes at below market rates, and used the funds to cover deficits. The availability of social security funds can also encourage governments to be profligate. On the other hand, governments have legitimate borrowing needs. If they cannot borrow social security funds, they will have to borrow elsewhere, perhaps at higher interest rates. The service of this debt will be the responsibility of taxpayers, the same persons who are contributors to the social security scheme. In developing countries, limitations of domestic capital markets generally result in significant investments in government securities. Governments should borrow social security funds, just as they borrow from other lenders, and the loans should be at market rates of interest.

Abuses by governments of funds they have borrowed from captive social security institutions have inspired calls to privatize social security in the expectation that private managers would be less susceptible to specific investment (and other) directions from the government and that they would invest more aggressively. It is not clear that privatization insulates social security

schemes from political interference.⁶³ Nor, since private managers would be investing in the same market as the public scheme, is it evident that they will be able to perform better than the public scheme. Multiple private managers would also be more expensive than a single public scheme investor. An alternative is for the public scheme to define the investment policy, strategy and benchmarks, and to allocate funds for investment by competing private investment institutions whose performance is then monitored by the public scheme. In this way, the public scheme would continue to be administered as before and the investment function would be shared. The investment performance of the public scheme could also be compared to the performance of the private investment institutions.

Whether investment leads to greater economic growth (and not simply inflated asset values) depends on the availability of efficient and productive investments. In developing countries provident funds and partially funded social security pension schemes face **liquidity** problems: they have funds to invest, but limited appropriate domestic investment opportunities. The easy solution to this dilemma – countries in this situation should invest abroad – ignores the national development and macroeconomic implications of exporting capital. In this case, the greater security which foreign investment might provide to persons covered by a pension scheme is incompatible with the goal of increasing national output.

While social security institutions prefer to invest ‘in bulk’ – to be ‘wholesalers’ of funds – excess liquidity leads them to undertake **financing of projects**. Project finance requires specialized management expertise which may not be found in social security institutions. Consequently, there can be a significant investment risk, and the effective management of the social security scheme may be put in jeopardy if its senior staff must divert their attention from running the scheme to overseeing projects.

In some countries, provident funds and partially funded social insurance pension schemes have been made subject to ‘financial services legislation’ and the **prudential supervision** of

the body which administers the legislation, often the central bank. This can be a positive measure. It must, however, be recognized that a public social security scheme is very different from a commercial financial institution. A social security scheme has an indefinite time horizon; it is not subject to being ‘wound up’. Pension scheme liabilities are long-term and partially funded social insurance pension schemes (and provident funds) seek to invest for long periods. Consequently, their investment performance should be measured over long periods. They should not be monitored in the same manner as private financial institutions which for competition reasons must seek high short-term returns. Indeed, a short-term investment horizon can be detrimental to both the national interest and to the interests of members of a social security scheme.

10.17 Are public pension schemes gender neutral?

In so far as the pension amount is concerned, males and females are treated identically even though higher female life expectancy means that females will on average receive their pensions for longer periods than males. (At one time it was common to have a female retirement age up to five years lower than the male age, but this provision has largely been eliminated.)

However, pensions received by females are generally lower than male pensions due to females’ absence from the labour force to bear and raise children and the lower wages typically received by females. Since public pension schemes pool contributions, females can be compensated for the time they spend rearing children by crediting them with service for the period when they are not contributing to the pension scheme. (Such a redistributive arrangement is not possible in a provident fund or defined contribution scheme where the benefit depends on each individual’s own contributions.) The lower wages received by females are a result of labour market discrimination which is not susceptible to equitable resolution by a public pension scheme. A minimum pension guarantee can provide a ‘floor of protection’ to both males and females.

In some schemes, a female’s right to a widow’s pension was derived from her husband, and she could lose her right in the event of divorce or separation. This discrimination is being replaced

⁶³ Events in 2001 in Argentina where private fund managers under the mandatory defined contribution system were ordered by the Government to transfer deposits to the state-owned bank cast doubt on the conviction that privatization would liberate pension funds from political risk.

by arrangements for splitting acquired benefit rights in the case of divorce or separation. In countries where female labour force participation is substantial, there is a trend to individualizing of benefits whereby a female's right to a benefit is entirely independent of her spouse.

10.18 Is there a 'crisis' in public pension schemes in industrialized countries?

The issue is ageing of national populations and 'over-promised' pensions. Declining support ratios and high replacement rates – 70 per cent and above, much higher than a modest replacement rate – in some maturing pay-as-you-go financed public pension schemes in industrialized countries threaten the future sustainability of the schemes. The identification of population ageing as an impending public pensions crisis which requires immediate action spawned articles in the popular press which exploited the alleged crisis and created uncertainty and doubt about their pensions among members of the public schemes. It was frequently claimed that the social insurance pension model was flawed and should be replaced by a defined contribution system. A radical structural reform was often advocated, sometimes with the support of private sector bodies which saw a potential commercial opportunity.

Certainly, the schemes in question must be reformed, but there is time to take a measured approach to reform. Reforms to social insurance schemes typically involve raising the contribution rate, increasing the number of active contributors relative to pensioners (e.g. by raising the retirement age), and/or decreasing the living standard of current and future pensioners (e.g. by lowering replacement rates or by lowering cost of living adjustments). Reforms are politically difficult, and in order to avoid a 'reform deadlock' and be accepted they must be based on a broad national consensus. Reforms of their defined benefit schemes have been adopted in Canada, Germany and Japan, and are under discussion elsewhere.

10.19 What is the Chilean reform model?

The reform of the public pension system in Chile has received much attention. In Chile, by the end of the 1970s political manoeuvring, unrealistic and inequitable pension promises, mismanagement, inflation and currency

devaluation had brought the public pension schemes (there were several defined benefit schemes covering different sectors) into disrepute. The schemes were discredited, their partial funding financing had effectively become pay-as-you-go and they had become unsustainable. In 1981 Chile enacted a structural (paradigm) reform which replaced the defined benefit schemes with a defined contribution scheme based on privately managed individual accounts.

During the accumulation period the individual accounts are credited with investment income annually just like members' accounts in provident funds. The difference is that in Chile the individual accounts are managed by private managers, not by a public institution. At retirement, members convert the balances in their accounts into pensions by buying annuities from private annuity providers or opt for 'programmed withdrawals' over a period. The latter provision gives individuals a choice which can result in their outliving the periodic payments and perhaps resorting to the guaranteed minimum pension paid by the state. The government set up a sophisticated supervisory authority to ensure that the private managers operate in the best interest of the account holders and annuitants.

Advocates of a Chilean style reform expected privatization to avoid the risk of political interference, and competition among private managers to produce higher investment returns for members and thereby higher pensions. In addition, national savings rates were expected to rise, capital to be more efficiently allocated, labour markets to become more efficient and national economic growth to increase. The Chilean reform focuses more on macroeconomic than on social policy considerations, and tends to be favoured by finance ministries and resisted by labour and social welfare ministries.

As in a provident fund, members in a defined contribution individual accounts scheme bear the investment risk, and the risk that their defined contribution individual account balances at retirement will be insufficient to provide them and their dependants with adequate retirement incomes. They have been empowered to make their own choices (e.g. to select and change private fund managers), but generally they do not have either the information or the knowledge to take informed decisions. In their dilemma, there is no shortage of professional advisers and

salespersons to assist them. The resulting switching of fund managers complicates the administration, increases administration expenses and can abet evasion of contributions. While investment managers are free from direct government interference and demands to which funded publicly managed schemes can be subject, generally the composition of the investment portfolios of different managers is remarkably similar. This may be attributable to regulations constraining investments, or simply due to the depth of the domestic capital market which offers few investments suitable for social security funds. Consequently, managers' rates of return are not significantly different.

Annuitization at retirement has proved to be problematical. All private annuity providers face the same investment and future reinvestment constraints and uncertain future annuitant mortality, as well as marketing and administration expenses. Since potential annuitants can opt for programmed withdrawals, the providers face adverse selection as persons who perceive themselves to be unhealthy will not opt for annuities. In order to index annuity payments so they keep up with inflation, private annuity underwriters must invest in indexed securities which largely restrict them to inflation indexed bonds issued by the government.

The close link between contributions and benefits in the individual account schemes has not created the expected incentive for participants to comply with the statutory contribution conditions. Myopic behaviour and current consumption needs have predominated over prudent saving for retirement and levels of compliance are low. In privately managed individual account schemes, administration expenses (including the high cost of advertising and salespersons' commissions) reduce the funds members accumulate to buy their pensions. This alone is a compelling reason for public pension schemes to be administered as natural monopolies by government departments or statutory bodies.

Adaptations of the Chilean model have been implemented in a number of Latin American countries and some countries in Central and Eastern Europe and the former Soviet Union. Experience with the model has considerably diminished enthusiasm for it. (See *Old Age Income Support in the 21st Century*, World Bank, Washington, 2005.)

10.20 What are the administrative prerequisites for a social insurance pension scheme?

This Note has focused on retirement protection policy issues. A social insurance pension scheme requires an efficient administration and a 'client service' approach to members, otherwise, no matter how well-designed the scheme is, it will not meet its objectives and it will rapidly be discredited by those whom it is designed to protect.

A provident fund already has a management information system, and the administrative infrastructure and system to collect and record contributions. The contributions system can be adapted to the requirements of a pension scheme. A system to record and make periodic pension payments on time and at remote locations throughout the country must be developed.

The necessary systems can be developed or adapted from existing systems elsewhere. It is important to allocate sufficient time to systems development so the pension scheme can be fully operational from the day it is inaugurated.

10.21 Pensions in Vanuatu

Vanuatu National Provident Fund (VNPF)
(established 1987)

10.21.1 Coverage:

Compulsory: public and private sector employees between ages 15 and 55

Voluntary: self-employed persons; others who opt to join

10.21.2 Contributions:

8 per cent of gross wages with 4 per cent paid by the employer and 4 per cent by the employee
Contribution rates as a percent of gross earnings have varied in recent years as follows:

to 31 Dec. 1999	6%
1 Jan. 2000 – 31 Dec. 2000	8%
1 Jan. 2001 - 31 Dec. 2003	12%
1 Jan. 2004 –	8%

10.21.3 Benefits:

Amount: employee and employer accumulated contributions with accrued interest (There is no provision for the payment of all or part of the

lump sum as an annuity.) payable in the event of a member's:

- attaining age 55,
- death,
- incapacity, and
- migration.

If the VNPF is unable to pay any amount which it is obliged to under the legislation, the Vanuatu Government guarantees the shortfall by making a loan to the VNPF.

A Special Death Benefit of VUV 175,000 is financed by an annual deduction of VUV 500 from each member's account.

There is no provision for members to borrow from the Fund, nor can members pledge the balances in their accounts as guarantees for loans from financial institutions.

10.21.4 Governance:

A tripartite Board of six persons is appointed by the responsible Minister of Finance and Economic Management (one nominated by the Director General of the Ministry of Finance and Economic Management, one nominated by the Director General of the Prime Minister's Office, two nominated by the Vanuatu Chamber of Commerce, one elected by the Public Service Association and one elected by the National Union of Labour). The Minister designates the chairperson. Prudential supervision of the VNPF is provided by the Reserve Bank since January 2004 under the Financial Institutions Act.

10.22 Observations on the Vanuatu National Provident Fund

10.22.1 Objective of the VNPF

"The VNPF is a financial institution established under an act of parliament that provides an opportunity for workers in Vanuatu to ensure their own future financial security". (VNPF brochure, June 2000)

10.22.2 Coverage

According to the census, the total population of Vanuatu in 1999 was 186,678. From the 2000 Vanuatu Labour Market Survey 14,272 persons were in the formal economy. These persons in wage and salaried employment constituted about one-fifth of the labour force. In June 2005, there were 4,668 public servants and 1300 teachers.

According to the VNPF, there are 17,000 members presently contributing to the Fund.

The VNPF was designed to protect employed persons. Thus the four-fifths of the labour force of Vanuatu which is not in wage and salaried employment remain uncovered. It is not possible to cover most workers who are in the informal economy and in self-employment and subsistence agriculture by a contributory social security scheme. In due course the Government may be in a position to provide from its budget a monthly social pension payable to all persons over a specified age. The amount would be low and related to subsistence requirements. The VNPF could administer the social pension payments on behalf of the Government.

10.22.3 Compliance

No social security scheme can operate unless there is compliance with the contribution conditions of the scheme. In order to ensure compliance, a social security institution must have access to quick administrative and legal remedies once the institution's efforts to negotiate payment arrangements with a defaulting employer have been unsuccessful. Unless the institution can invoke rapid remedies, its efforts to ensure compliance will be thwarted. Failure to provide the social security institution with all administrative means to control compliance and legal remedies to enforce compliance brings into question the government's commitment to the success of the scheme which it enacted.

10.22.4 Interest credited to members' accounts

The real rate of return on balances in members' VNPF accounts is illustrated in table 10.3. Prior to 1999, the VNPF was obliged by law to credit at least 3 per cent interest to members' accounts.

Table 10.3 VNPF rates of return (%)

Year	Credited to members	Inflation rate	Real return to members
1995	4.0	2.2	1.8
1996	3.0	1.0	2.0
1997	3.0	2.8	0.2
1998	3.0	3.2	-0.2
1999	1.0	2.0	-1.0
2000	1.0	2.6	-1.6
2001	1.0	3.6	-2.6

2002	1.5	2.0	-0.5
2003	2.0	3.0	-1.0
2004	3.0	na	-

Source: VNPF data; ILO LABORSTA table 7A (calendar year average rates of inflation)

A negative real return on members' accounts during the accumulation period means that (excluding contributions made during the year) at the end of the year the real value of the account balances is lower than at the beginning of the year, i.e. the balances in the accounts can buy fewer goods and services at the end of the year than they could at the beginning. In a defined contribution (provident fund) scheme, members bear the risk that real interest rate will be negative.⁶⁴

10.22.5 Investments

(i) Small loans

The possibility of the VNPF allowing members to access their savings through loans is sometimes raised. This proposal ignores the appalling experience of the VNPF with housing, educational and micro-loans prior to 1998. Educational and micro-loans were repayable over 12 months at an interest rate of 20 per cent per annum and were secured by members' VNPF balances. At the end of 1997 they comprised VUV 121 million and were all repaid by deductions from members' balances in 1998. Housing loans repayable before members' 55th birthdays at an interest rate of 7.5 per cent per annum which comprised Vt876 million at the end of 1997 were transferred (along with other non-performing investments) to the National Bank of Vanuatu and the Asset Management Unit. By the end of 1997 investments in housing, educational and micro loans which comprised over one-quarter of the total members' balances had been liquidated from the VNPF investment portfolio.

The VNPF was set up to help members provide for their retirement. It was not intended to be a small loans scheme, and hence has neither the staff nor expertise to manage a portfolio of small loans. In addition, the VNPF is in an impossible position when it seeks to enforce repayments of loans from its own members (for whose retirement it is expected to provide). Rather, the VNPF should be a 'wholesaler' of funds, lending

⁶⁴ Members who make withdrawals from their accounts for current consumption may in fact be acting in their own best interest if real returns on their accounts are negative.

sums (normally with an enforceable government guarantee) to institutions which are organized to assess loan applications, on-lend to individual small borrowers and enforce the loan interest and repayment provisions.

This does not mean that access to credit is not important for VNPF members. Subject to acceptable and enforceable guarantees, the VNPF can support institutions which are set up to provide credit. For example, it is reported that the Government has set up a task force to develop a 'funding vehicle' for rural and micro-finance development in Vanuatu. Subject to appropriate government guarantees to protect VNPF members, the VNPF could invest in the funding vehicle which is set up.

(ii) Fund manager legislation

It is understood that the onerous and unrealistic conditions imposed on fund managers by the 1998 legislation are being revised.

10.22.6 Withdrawals

Table 10.4 shows data on contributors, contributions and withdrawals.

Table 10.4 VNPF contributors, contributions account and withdrawals (VUV 000s)

Year	Withdrawals	Contributions account*	Number of contributors
1995	57,355	2,901,272	20,127
1996	100,578	3,356,021	20,237
1997	121,657	3,810,020	19,566
1998	**3,363,346	965,116	16,163
1999	36,277	1,433,904	22,865
2000	52,021	2,114,368	26,976
2001	98,877	3,052,221	***18,607
2002	148,411	3,991,006	17,297
2003	214,377	4,832,151	17,222

* Contributions account = Members' funds excluding Special Death Benefit Reserve

** Members were allowed to withdraw their balances until 30 November 1998.

*** Decrease in the number of contributors results from a 'clean-up' of the database.

Source: VNPF Annual Reports

Under the State of Emergency declared in 1998 members were allowed until 30 November 1998 to withdraw the amounts to their credit in the VNPF at 30 November 1997. The total balance in the members' account at the end of 1998 (VUV 965 million) consists of balances which members did not withdraw in 1998 plus contributions in

1998 (Vt497 million) and December 1997 plus interest credited in 1998 (VUV 28 million) less the SDB transfer (VUV 7 million). The amount which remains from the year-end 1997 account balances at 31 December 1998 in respect of members who did not withdraw their balances is thus in the order of VUV 450 million or about 12 per cent of the balance at 31 December 1997.

Members' contributions after 30 November 1997 cannot be withdrawn other than for the reasons attaining age 55, death, incapacity or migration. The VNPF thus recommenced operations with new governance and investment arrangements from 1 December 1997.

Table 10.5 Number and amount of withdrawals at age 55 or higher

Year	Number	Amount (Vt 000s)	Average amount (Vt)
2001	267	34,826	130,434
2002	371	71,903	194,160
2003	546	98,873	181,086

The average amount of the lump sum at age 55 will increase as members have more years of contributions, interest will have been earned for longer periods and salaries on which contributions are paid increase. The amounts in the table 10.5 presumably result principally from contributions since 30 November 1997. It should be noted that the contribution rate has been reduced to 8 per cent of gross earnings from 12 per cent from 2001 to 2003.

10.22.7 Governance, reporting, transparency and public awareness

While the survey which was undertaken indicated that Ni-Vanuatu were in favour of a retirement benefit in the form of a pension (the third identified need after medical care and housing), it was clear from interviews that were held that pensions are not generally well-understood. People have what was described as a 'lump sum mentality', but this may be because the pension alternative is not widely known. Nor is it generally recognized that the role of the VNPF is to provide retirement protection to those workers who are members of the scheme. The VNPF is a trustee of the funds which are contributed to it and while it must invest these funds it cannot

divert them to other uses, however worthwhile they may be.

The events of 1997 and ensuing State of Emergency tarnished the image of the VNPF, and inevitably some scepticism and suspicion of the VNPF persists. Trust in the VNPF – which is necessary if the VNPF wishes to introduce major changes to the provident fund – can be created by the VNPF establishing a reputation for accountability and distancing itself from political interference. Otherwise, there is a risk that the public will think that any proposed changes to the provident fund mean that the VNPF or the government or both are contriving to take their money from them. While governments have a legitimate interest and responsibility for social security schemes, the ideal relationship between a social security institution and the government is the same relationship the central bank has with the government. The prudential supervision of the Central Bank can reinforce the independence of the VNPF.

10.22.8 Pensions

The previous VNPF Board raised the possibility of providing periodic retirement benefits. In the future, demographic ageing will strain the family and community system whereby aged members of society are supported. According to United Nations estimates 'support ratios' in Vanuatu – the number of persons aged 15 to 59 available to support persons age 60 or over – rapidly decrease in the future.⁶⁵

Table 10.6 Support Ratios

Year	2000	2025	2050
Support ratio	10.6 ²	8.0	4.6

In other words, while in 2005 there are more than ten persons of working age who are available to support persons over age 60, in 2025 there will only be eight and in 2050 about four and one-half. In the future, in order to sustain the system of community support, aged persons will need more resources of their own. A social insurance pension scheme can provide these resources for

⁶⁵ Demographic ageing is the result of declining fertility rates and increasing life expectancies, especially at the higher ages. Data are from *World Population Ageing 1950-2050*, Population Division, United Nations Department of Economic and Social Affairs (ST/ESA/Ser.A/207), New York.

wage and salary earners presently covered by the provident fund.

There are two principal alternatives whereby the VNPF could pay benefits in the form of pensions:

(i) ***A. Conversion of lump sum payments into annuities***

Under this system, at retirement age the lump sum withdrawal is multiplied by an annuity factor which determines the monthly pension. A VUV 500,000 withdrawal at age 55 would produce a pension of around VUV 50,000 annually thereafter. The retired member continues to bear the investment risk since the pension would not be adjusted to take into account future inflation.

Although the average amount of the lump sum at normal retirement age will increase as members have more years of contributions, interest will have been earned for longer periods and salaries on which contributions are paid increase, this system of providing pensions will generally not result in adequate pensions for members of the VNPF. For most of them, for many years the lump sums which would be converted into pensions would be too small to produce meaningful pensions.

An alternative would be to offer retiring members the option of converting their lump sums into pensions. Members who take this option will be those few with large lump sums. Most workers will simply take their lump sums which simply means that the present system would continue.

(ii) ***B. Conversion into social insurance pensions***

A social insurance pension can provide much better retirement protection than a lump sum provident fund benefit which is often rapidly dissipated.⁶⁹ The pension is related to an employee's earnings history, and it is adjusted periodically to take into account inflation. In a social insurance pension scheme it is the scheme and the government as the ultimate guarantor of the scheme which assume the investment risk, not each individual member. The 8 per cent contribution rate would permit a modest pension

at age 55 scheme to be set up.⁶⁶ If a small lump sum is also to be payable, a higher contribution rate would be necessary.

The VNPF retirement age is 55, the age when the provident fund pays members' accrued balances. According to the Demographic Analysis Report of the 1999 Census of Vanuatu, joint (male and female) life expectancy at birth is 67.3. For urban areas it is 71.9. But, what is important is the life expectancy of persons at the upper ages. The United Nations estimates that the current joint life expectancy at age 60 in Vanuatu is 16.8 years.⁶⁷ In other words, on average, persons aged 60 in Vanuatu live to almost age 77. Retirement age should be set with reference to life expectancies at the upper ages – the lower the retirement age, the more expensive the pension scheme will be. The retirement age would have to be raised gradually at least to age 60.

The design and financing arrangements for a public pension scheme are major undertakings involving wide consultation with stakeholders and an actuarial valuation. A multitude of design and financing issues must be decided, including:

- retirement age,
- qualifying period for old-age, invalidity and survivors pensions,
- pension benefit formula,
- financial system to be applied,
- provision of a minimum pension benefit,
- transitional arrangements (including equitable arrangements to take into account members' periods as contributors to the VNPF),
- method of adjustment of pensions to take into account inflation, and
- amount of lump sum benefit or portion of total contribution to be allocated to produce a lump sum.

Reform of the VPF into a social insurance pension scheme could proceed in two stages:

⁶⁹ All the provident funds in the island states in the Caribbean have converted to pension schemes, and with the exception of Swaziland, in Africa provident funds have been converted or are in the process of being converted to pension schemes. In Africa the conversion has usually included a pension and a lump sum payment.

⁶⁶ From *World Population Ageing 1950-2050*, Population Division, United Nations Department of Economic and Social Affairs (ST/ESA/Ser.A/207), New York.

⁶⁷ In the ILO Social Security (Minimum Standards) Convention No 102 for an average wage earner with a spouse of pensionable age, the minimum pension after a full working career (30 years) is 40% of the worker's earnings at retirement.

10.22.9 Public information/awareness campaign

There must be widespread support for the conversion of the provident fund to a social insurance pension scheme. In addition to support the Board and management of the VNPF, the active support of the Central Bank and concerned ministries, VNPF members and workers' organizations, and employers must be sought. The campaign would usually include public meetings and extensive use of the media. It is necessary to generate support for a modest pension scheme, while not creating unrealistic expectations.

The campaign is a national effort which must be directed by respected national leaders who champion the reform of the provident fund. The ILO can provide documentation and similar support to the campaign, but the impetus for reform must be national.

2a. Technical planning

Support for the conversion leads to the appointment of a planning committee consisting of the tripartite partners and other interested parties. The planning committee should set out a target timetable for the design of the pension scheme and actuarial valuation, the drafting and enactment of legislation establishing the scheme, and implementation of the scheme. Proposals for the design and financing issues mentioned above must be formulated and an actuarial valuation undertaken. The outputs of these activities would be presented to the planning committee, and once agreed they would be widely publicized. Once the proposals have been accepted, legislation can be drafted. Widespread support for the pension scheme should facilitate passage of the legislation.

2b. Implementation planning

At the same time technical planning is underway, an implementation committee should be set up to deal with pension scheme administration issues, especially the information technology requirements and arrangements for making monthly pension payments throughout the country.⁶⁸ Once an

outline of the scheme has been agreed, the forms which will be required and systems can be designed. Staff requirements must be ascertained, staff recruited and arrangements made for staff training.

Technical and implementation planning must proceed according to a well-defined and realistic time frame. International expert advice is likely to be required. The ILO can help to design a project to cover the technical planning and implementation of the reform. Loans or donor assistance to finance the project can be sought, but a provident fund is generally the largest financial institution in a country and it is not always recognized that the assets of a provident fund are held in trust for its members; hence donors are reluctant to allocate scarce technical cooperation resources to projects involving provident funds. Since reform of a provident fund will benefit the current and future generations of members, it is not necessary to seek loan or aid funds since a provident fund can pay for the project itself and amortize the cost over a long period (20 years or more). The ILO has wide experience implementing such projects which are financed by the institution involved.

⁶⁸ Once they retire, pensioners will often move to the remote areas from which they came to work in wage and salaried

employment. The VNPF must arrange to pay pensions to these pensioners regularly and on time.

Chapter 11 Unemployment Protection: Principles

11.1 Introduction

This study as been produced against a background of worsening global employment trends, growing concerns about the serious problem of youth unemployment and slow progress in achieving gender equality at work. At the end of 2004 global unemployment was estimated as 184.7 million which was a slight improvement over 2003 but welcomed as the first such decrease in a decade. However, the fact that the global growth rate in 2004 was as high as 5 per cent but produced only 1.7 per cent more jobs was highlighted at the International Labour Conference 2005 as a grave concern over the imbalance between globalisation and growth and job creation *when more than a billion people are either unemployed or are considered as working poor.*⁶⁹

ILO Global Employment Agenda in regard to labour market policies notes that in a globalized economy where competition has intensified, labour markets work best when there is an institutional environment that allows adjustment flexibility for firms whilst ensuring income, social and employability protection for workers. A shift is noted towards more flexible forms of employment and from employment protection at the company level towards social protection on a more collective level. The implication for developing countries is that they have to gradually stabilise and formalise their labour markets which calls for the introduction of labour standards and labour market institutions *It is the embeddedness of private and public sector employment in a network of labour market institutions such as unemployment benefit, re-employment services and training schemes which is a condition for the management of change and a condition for decent work that can hardly be created by the private sector without the support of labour market institutions.*

In this context the number of unemployment benefit schemes has gradually increased in recent decades reaching 68 in 2004. These schemes have a long history in industrialised countries but were more recently developed in Central and Eastern Europe and in some middle-income developing countries. There are few schemes in developing countries. In some of the latter, the main strategy has been to organise labour intensive projects for infrastructural development. Such projects and programmes have directly assisted unemployed and under-employed persons by providing work that is scheduled for the off-season in rural areas at rates of pay that appeal only to the lower paid and hence achieve targeting objectives. These are persons who, in the main, are unlikely to be covered in contributory social security schemes which mean that this method of assisting the unemployed should continue if an unemployment insurance scheme is developed at a later stage primarily for persons in the formal sector.

The term *unemployment protection* should be understood to mean the full range of measures through the promotion of employment, employment services, vocational training programmes, and income support to assist the unemployed to find suitable employment. There are two main types of unemployment benefit schemes; social insurance systems that pool contributions and other income in autonomous funds from which benefits are paid (Unemployment Insurance schemes), and unemployment assistance schemes that apply social assistance principles of means-testing to determine entitlement to cash payments during unemployment. Some of the longer-established unemployment insurance schemes in industrialised countries also provide unemployment assistance to benefit recipients who are still unemployed and qualify under means test rules when their entitlement to insurance benefits is exhausted, and these schemes may also ensure financial support to persons who are ineligible for insurance benefits.

This chapter comprises:

- Relevant Concepts, Principles and Standard;
- Unemployment Protection in Practice; and
- Development of Unemployment Protection.

⁶⁹ Quoted in the ILO press release on the speech by the Director-General Juan Somavia at the ILC 6 June 2005 who also stated that "We must repair the disconnect between economic growth and job creation, rebalance priorities, revalue work and target the right investment policies. We must move employment and decent work fully into the mainstream of the international development debate"

In addition summary information on selected unemployment insurance schemes in Asia is given in section 11.5 and an overview of the unemployment insurance scheme in Thailand, as an example of a scheme in a developing country, is provided in section 11.6.

11.2 Relevant concepts, principles and Standards

11.2.1 ILO instruments on unemployment

The relevant ILO Conventions define the contingency of unemployment and prescribe the standards of unemployment protection. The first such Convention was approved at the first session of the International Labour Conference in 1919. However, some ILO instruments on this subject are now outdated and this report focuses on the post-war Conventions numbers 102 and 168 and the Recommendation 176 respectively and explains only those aspects that are directly relevant to this study. The titles of these instruments are as follows:

- Social Security (Minimum Standards) , Convention No. 102 of 1952;
- Employment Promotion and Protection against Unemployment, Convention No. 168 of 1988; and
- Recommendation on Employment Promotion and Protection against Unemployment, No. 176 of 1988.

11.2.2 Employment policy and unemployment benefits

Article 2 of Convention No.168 makes the stipulation that systems of protection against unemployment, and, in particular the methods of providing unemployment benefits, should contribute to the promotion of full, productive and freely chosen employment, and are not such as to discourage employers from offering and workers from seeking productive employment. This constitutes an important guideline for the design, adaptation and implementation of unemployment benefit schemes.

The emphasis on employment is evident from the stipulation in Article 7 that each Member shall declare as a priority objective a policy designed to promote full, productive and freely chosen employment by all appropriate means, including

social security. Such means should include, inter-alia, employment services, vocational training and vocational guidance

11.2.3 Definition of the contingency

The basic concept in the Social Security (Minimum Standards) Convention (No. 102 of 1952) is of *suspension of earnings due to inability to obtain suitable employment in the case of a person who is available for and capable of work*. A further requirement that the applicant should be *actually seeking work* is contained in the Employment Promotion and Protection Against Unemployment Convention (No.168 of 1988). This is the definition of **full unemployment** in Convention No.168 which is at the core of the definitions found in national legislation governing unemployment benefit schemes that increasingly in recent years have stressed the requirement that benefit applicants are genuine job-seekers for whom the cash benefits are for the purpose of subsistence whilst they take sufficient time to find *decent work*, to use the term and concepts developed by ILO.

11.2.5 Suitable employment

This is a key concept that has to be understood and implemented in administering national schemes. Article 21 of Convention No.168 stipulates that benefit may be refused, withdrawn suspended or reduced when the claimant refuses to accept suitable employment. This situation may arise in the course of monitoring or enforcing job search rules and the employment services officials consider that, all things considered, the job available is reasonable and appropriate for the unemployed person but are unable to convince him or her to apply for it or take it, as the case may be. In determining whether employment is *suitable* account should be taken of:

- the age of the unemployed person;
- their length of service in their former occupation;
- their acquired experience;
- the length of the period of unemployment;
- the labour market situation;
- the impact of the employment in question on their personal and family situation; and

- whether the employment is vacant as a result of an on-going labour dispute.

Recommendation No.176 lists the circumstances where the concept of suitable employment should not apply:

- such as where the employment concerned involves a change of occupation which does not take account of the abilities, qualifications, skills, work experience, and retraining potential or involves a change of residence to a place where suitable accommodation is not available;
- the conditions and remuneration are appreciably less favourable than those generally granted in that occupation and district;
- the vacancy results directly from a stoppage of work due to an on-going labour dispute; and
- reasons other than the above make it not unreasonable, taking into account the family responsibilities to refuse the job offer.

In practice, interpretation of such guidelines may still differ between unemployed persons and the employment services and may lead to disputes, the application of sanctions in the form of benefit suspensions and, in some instances, to appeals to labour courts or their equivalent to resolve such disputes.

11.2.6 *Partial unemployment*

Convention No.168 also extends unemployment protection to partial unemployment which is defined as:

- loss of earnings due to a temporary reduction in the normal or statutory hours of work, and
- suspension or reduction of earnings due to a temporary reduction of earnings due to a temporary suspension of work without any break in the employment relationship for reasons of, in particular, economic, technological, structural or similar nature.

This Convention states that each Member shall endeavour to provide the payment of benefit to part-time workers who are actually seeking full-time work on the basis that the total of benefits

and earnings from part-time work may be such as to maintain incentives to take up full-time work. However members may make a declaration under Article 5 in order to defer implementation of provisions on partial unemployment.

11.2.7 *Qualifying periods*

The Conventions do not contain specific provisions on the duration of qualifying periods and stipulate only that the qualifying period should be such as to preclude or prevent abuse.

11.2.8 *Cash benefits*

Article 15 stipulates that benefit shall be calculated in such a way as to provide the beneficiary *“with partial and transitional wage replacement and, at the same time, to avoid creating disincentives either to work or to employment creation”*.

Rates Where the benefit is based on the contributions paid by and on behalf of the unemployed persons or in respect of the previous earnings, Convention No.102 prescribes a rate of 45 per cent for a man with a wife and 2 children whilst the Convention No.168 prescribes 50 per cent. In other types of systems, where benefits are at standard rates or are based on need, the rates must be fixed at 50 per cent of the minimum wage or of the wage of an ordinary labourer or at a level that provides the minimum essential for basic living expenses, whichever of the three alternatives is the highest.

Duration As regards duration, a waiting period of up to 7 days is provided for and the duration of payment is prescribed as throughout the contingency in principle but this can be limited as follows:

- under Convention No.102 where employees are protected for up to 13 weeks within a period of 12 months and, where residents with insufficient means are protected, to a maximum of 26 weeks in a period of 12 months, and
- under Convention No. 168, up to 26 weeks in any spell of unemployment or 39 weeks over a period of 24 months but, if a country has obtained a temporary exception from this requirement under Article 5, the duration may be limited to 13 weeks over any period of 12 months.

Feasibility Studies

Convention No.168 stipulates in Article 19 that the duration of payment to seasonal workers may be adapted to their occupational circumstances. Some schemes aim to limit the entitlement to the normal working period and to exclude the off-season periods when there is no loss of earnings to be compensated.

11.2.9 Other benefit rights

Convention No.168 contains other important provisions concerning other benefit rights:

- where the unemployed persons were entitled to medical care for themselves and dependants by virtue of their previous employment (for example, through a social health insurance scheme) Article 23 provides that this entitlement may be maintained for persons in receipt of unemployment benefit, and
- the periods of benefit should be taken into account for rights to pension benefits, medical care and sickness and maternity benefits after the end of unemployment.

This means that persons who are members of an integrated and comprehensive scheme and cease to contribute because of unemployment would not lose all rights during the period of unemployment and be forced to obtain and pay for medical care from other sources for themselves and their families. Furthermore, by crediting periods of unemployment benefit the contribution records of the unemployed would not depreciate affecting entitlement to short-term benefits when back in work and their rights to pension protection in future. However, such provisions may not be applied where a declaration has been made by a country where it is justified by the extent of protection of its social security system.

11.2.10 Restriction on benefit entitlement

In addition to the suspensions in relation to refusal of suitable employment, Article 21 of Convention No. 168 prescribes other circumstances where benefit may be refused, withdrawn, suspended or reduced, including:

- when it has been determined that the person concerned had deliberately contributed to

his or her own dismissal, or has left employment voluntarily without just cause,

- during the period of a labour dispute, when the claimant has stopped work to take part in a labour dispute or when he or she is prevented from working as a direct result of a stoppage of work due to this labour dispute,
- when the claimant has attempted to obtain or has obtained benefits fraudulently, and
- when the person concerned has failed without just cause to use the facilities available for placement, vocational guidance, training, retraining or redeployment in suitable work.

11.2.11 Financing

Convention No. 102 prescribes that the cost of benefits and the administration of the scheme shall be borne collectively by way of insurance contributions or taxation or both in a manner which avoids hardship to persons of small means and takes into account the economic situation of the country and the classes of persons protected. The total of contributions by employees shall not exceed 50 per cent of the total contributions except those for family benefit and employment injury benefit.

11.3 Unemployment protection in practice

11.3.1 Objectives and roles of unemployment benefit schemes

The main purpose of social insurance and social assistance systems for the contingency of unemployment is to provide financial support whilst the unemployed person obtains re-employment with the help of organised employment services and, where necessary, re-training schemes. Other objectives are:

- To help maintain aggregate consumer demand during periods of economic difficulties that have led to extensive unemployment and to prevent or minimise a downward spiral of further economic decline that could cause more rounds of job losses;

- Promote better utilisation of labour by encouraging unemployed workers to find appropriate jobs and, where necessary, develop their job skills to meet current demands of the labour market; and
- Help industries to maintain skilled work forces as trained workers are not forced to seek other jobs, and thus are free to return when job openings occur.

The introduction of unemployment insurance, or an unemployment assistance scheme, such as those in Australia and New Zealand, may have an effect on aggregate disposable income, consumption and savings. Benefit entitlement might deter some workers from seeking rapid reintegration into the labour market as it is intended to provide a breathing space to find suitable jobs. In the case of short-term schemes that may be implemented in developing countries to provide a proportion of the unemployed modest levels of income support for limited periods, the effect on the overall cost of the scheme and the economy as a whole should be negligible. There are only marginal effects to be expected on average labour costs and on consumer price levels.

On the other hand, there are economic costs of not having any unemployment benefit system. They result from:

- passive or active resistance by workers to structural change and unwillingness of the workforce to cooperate in the introduction of new technology due to concerns that some may lose their jobs⁷⁰;
- political tensions and social unrest when large numbers of workers have to be laid off;
- the tendency to claim other social security benefits (invalidity benefits, cash sickness benefits) when the contingency of unemployment is not covered; and
- the temptation to establish other more costly and less effective schemes to provide protection in the event of job loss (employment assistance programs).

The contingency of short-term and frictional unemployment can be considered a risk that can be protected under social insurance principles of pooling risks and finances in autonomous funds. The special characteristics of unemployment relate to the difficulties of predicting or projecting the extent of unemployment which could arise from one or more of numerous economic factors and, furthermore, could be localised and temporary at one extreme or widespread and structural in nature at the other. As industries adapt to market forces and introduce new technological methods that place new demands on employees they may be expected to be increasingly subject to re-training, more mobile and adaptable. In such circumstances, unemployment benefit schemes have a key role in adapting labour supply to demand.

In the context of more open economies in the era of globalisation the importance of such schemes is enhanced. However, the limited number of unemployment benefit schemes worldwide, and notably in developing countries, underlines the difficulties of designing and administering these systems effectively in countries where coverage is narrow, job creation is limited and relatively large informal sectors exist.

Information on the experiences of unemployment benefit schemes is provided in the following sections.

11.3.2 Overview

Whilst unemployment benefit schemes operate in all industrialised countries there is some variation in the standards of protection they provide. One group that includes Austria, Belgium, Denmark, Finland, France, Germany, Iceland, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden and Switzerland is noted for the extensive coverage and high level and long duration of unemployment insurance benefits, which may be backed up by unemployment assistance for workers who do not qualify or have exhausted their entitlement to insurance benefits.⁷¹ These countries generally have high levels of employment protection. A second group that includes Australia, Canada, Japan, New Zealand,

⁷⁰“The existence of a good unemployment insurance system creates a feeling of security among the workforce which can greatly facilitate structural change and technological innovation that workers might otherwise perceive a threat to their livelihoods.” Social Security A new consensus” ILO Geneva 2001

⁷¹ The main sources for this section are “Social Security A new consensus” ILO Geneva 2001 and the International Workshop on the Role of Employment/Unemployment Insurance under the New Economic Environment, Seoul, Korea September 2001.

the United Kingdom and the United States provide relatively lower levels of income protection and more limited employment protection.

In Central and Eastern Europe, new schemes were introduced near the end of the 1980s which have since been subject to reforms, especially to limit benefit duration; one of the main concerns has been the limited coverage of these systems. In some middle-income developing countries unemployment benefit schemes are in their early stages of development facing the need to extend coverage and increase the effectiveness of re-employment strategies. In some Latin American countries government finances the schemes (Brazil and Chile) and rates of benefit are in the range 40 to 80 per cent of previous earnings. Barbados pays 60 per cent of average earnings for a maximum of 26 weeks. In China the levels of income protection provided in local jurisdictions are generally low and the scheme in South Korea, which has succeeded in extending coverage quite widely, pays only 50 per cent of average earnings for periods related to length of insurance and vary from 3 months to a maximum of 8 months for persons with disabilities, or are aged over 50 and have over 10 years insurance.

In many of the long-established schemes, in addition to the intensive support for job-search activities at the individual claimant levels the basic strategy is to stimulate job creation and re-employment through active labour market programmes. For example, in Japan the government subsidises selected enterprises that are experiencing difficulties where it appears that a financial injection will prevent job losses (rather than merely postpone the inevitable), and also to encourage the hiring of hard-to-employ older workers; furthermore, other measures are brought to bear to avert closures or extensive job losses. In addition, the scheme, which has the title of Employment Insurance to signify its principal objective, pays allowances during vocational training, transportation, moving and lodging expenses to trainees and to persons seeking employment outside the immediate commuting area and certain other costs associated with re-location for the purposes of re-employment.

The Swedish system has long accorded a high value to vocational training and promotes a widespread training culture to improve capabilities of the work force with the emphasis on regular updating and increasing the relevance

of vocational training for changing labour market needs. Wage subsidy programmes have been in operation since the 1930's. One issue was whether wage subsidised jobs should be at the same pay rate as other jobs. In practice, wages have been at benefit or minimum wage levels. Trade unions and others debate the value of wage subsidies for providing employment because of concerns that certain enterprises try to exploit wage subsidies schemes. The programmes included support for small companies, job creation in regions with high unemployment, and subsidised jobs for unemployed persons.

Some of the main active labour market programmes in Germany are as follows:

- Support for further vocational training,
- Job creation measures to provide temporary jobs for long term unemployed persons;
- Wage subsidies using resources otherwise payable as benefit in order to provide temporary employment;
- Integration subsidies, the purpose of which is to obtain permanent employment for disadvantaged workers by compensating employers for lower performance;
- Recruitment subsidies for new businesses to employ up to two unemployed persons;
- Subsidies for recruiting long-term unemployed persons; and
- Start-up grants for persons entitled to benefit but wishing to start businesses may be entitled to a lump sum of 6 months benefit.

Most countries keep such policies under review to evaluate their effectiveness and adapt them to changing requirements.

11.3.3 Costs of unemployment benefit schemes

A study carried out under the auspices of the ISSA Technical Commission on Unemployment Insurance and Employment Maintenance has analysed the costs of unemployment benefit schemes, using data from 32 national systems.⁷² As the study indicates, the main factors that determine such costs in a national schemes are:

⁷²“International evidence on unemployment compensation prevalence and costs” Wayne Vroman, Economist, Urban Institute USA.

- The unemployment rate;
- Access to the programme as reflected by the ratio of beneficiaries to the unemployed; and
- The level of income support as indicated by the replacement rate which is measured by the ratio of average payments to the average earnings amongst the covered worker.

The main findings were that amongst 32 countries for which data was available for the analysis

- the costs were highly varied during the 1990s across the 32 countries;
- Costs were highest amongst the OECD countries reflecting the wide scope of the schemes and high benefit levels; and
- High costs were most pronounced amongst countries with combined unemployment insurance and assistance schemes.

A simple average of the 32 countries found that the cost rate as a percentage of payroll was 2.03 per cent for the 1990s but there is some variation for the component regions and groupings due to the basic differences in the structure, scope and standards of income protection, as follows:

- OECD -3.20 per cent;
- East and South Asia- 0.18 per cent;
- Central-Eastern Europe-1.33 per cent;
- South America-0.34 per cent; and
- Others-0.02 per cent.

11.3.4 Recent reforms

In general, over recent decades as countries have implemented employment policies as a high priority, the roles of unemployment benefit schemes have come under scrutiny and, in some instances, reforms have resulted that are designed to reduce expenditures and increase the re-employment rate of the unemployed beneficiaries. These reforms have taken place against a background of rising unemployment and increasing uncertainty about future employment growth. Another factor which must be acknowledged is that, in many countries, systems of cash benefits for the unemployed have less public support than for other types of social security protection. This is because of the belief that amongst the unemployed there is a

proportion who have no real intention of urgently seeking another job and are satisfied with the income from benefits, whether or not this is supplemented by undeclared earnings from clandestine work.

The dilemma of the scheme administrators and particularly the employment offices, is that, whilst aiming to provide effective and professional services to all persons on the unemployment register, they must prevent waste of resources and fraud and deter persons who aim to exploit the system. One important point is that many of the genuine job-seekers succeed in finding work through their own efforts since it is common for persons to use personal initiatives to find work rather than be provided with job offers at the employment offices. This limits the possibility of employment offices offering suitable work to such persons and to apply sanctions to those who refuse without good cause. However, the enforcement of suitable job and training offers and penalising refusals by means of benefit reductions is one of the most effective administrative procedures available in the implementation of the job-seeking systems.

(i) *Australia*

One of the key provisions in the Australian unemployment assistance scheme, which is based on the principle of means-testing, is the “activity test” that demonstrates the eligibility of claimants to *Newstart Allowance* (NSA which is for persons aged 21 to pension age) and Youth Allowance or YA (for young people aged between 16 and 24 who are either studying full-time if between 18-20 and are unemployed and looking for full-time work). The main impetus for changes was to ensure that only genuine job-seekers should qualify for cash payments and to maintain the supply of labour by encouraging the unemployed to actively seek work and to accept suitable employment.⁷³

The main changes included:

⁷³ “Unemployment insurance : Importance and potential for developing countries: Unemployment assistance in Australia: Recent developments” Graeme Hope, Department of Family and Community Services; ISSA Meeting of Directors of Social Security Organisations in Asia and the Pacific, Malaysia, November 1999.

^{73a} “Unemployment insurance : Importance and potential for developing countries: The Canadian experience : Administering benefits for the unemployed-a 60 year voyage” J. Mc Whinnie, HRD Canada; ISSA Meeting of Directors of Social Security Organisations in Asia and the Pacific, Malaysia, November 1999.

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- The introduction of a Job-seeker Diary issued to recipients of NSA and YA to record details of job-search for checking and review purposes;
- Enforcement of Employer Contact Certificates to be signed by employers as proof of contacts by job-seekers;
- Re-definition of “unsuitable work” to expand the scope of job-seeking activities;
- A Work for the Dole initiative to foster work habits through work for the community in exchange for unemployment allowances; and
- Simplification of activity test breach penalties under which claimants who fail the activity test for the first or second time incur a benefit reduction of 18 to 24 per cent respectively for 26 weeks, whilst a third breach within a two-year period attracts an 8 week non-payment period; whilst serving these penalties it is still necessary to keep up job search activities.

In the administrative sphere, 1997 saw the creation of *Centrelink* to improve services to social security beneficiaries and job-seekers. This organisation integrates the delivery of income support with the functions of registration for re-employment, assessment and referral for labour market assistance. The reforms replaced the public employment services with Jobs Network which comprises public, community and private providers of employment services who are paid on outcomes - that is, when they place an unemployed person in a job. The unemployed persons have the right to choose the providers they prefer which increases the pressure of market forces on these providers to maintain competitiveness through technological and other improvements in their systems.

As in other countries, these reforms were introduced after careful assessment of the strengths and weaknesses of the current systems, and this process continues to ensure that the objectives of facilitating re-employment are met in the most cost-effective manner.

(ii) *Canada*

Canada introduced unemployment insurance in 1940 and the scheme has undergone extensive revisions at various stages in relation to changing social and economic conditions in the country. This process of change has culminated in the

introduction of Employment Insurance (EI) in 1997 which replaced the scheme that was transformed by legislation enacted in 1971. The coverage is now extensive amongst employees, including federal government employees, with the self-employed excluded, although persons engaged in fishing are covered in a separate scheme. The changes introduced 1971 had extended coverage, enhanced benefits, reduced qualifying tests and had prescribed limited penalties for persons who voluntarily gave up work or were dismissed for misconduct. At various times as a reaction set in to the generosity of the new scheme, amendments were enacted that were designed to reduce expenditures and the scope for abuses, including provisions to tighten eligibility rules and to enforce job-search.

After considerable and lengthy research and public debate, the EI system was adopted which has tightened eligibility and curtailed the duration of benefit payments. *The purpose of the EI reform was, in fact, to discourage people from dependency on public funds, and, instead, to encourage employment. This has meant more investigations and control activity and stiffer penalties for both employers and claimants who have committed fraud.* The changes include:

- stricter qualifying rules that also curtail entitlement duration;
- stronger penalty and repayment provisions in fraud cases;
- an improved system for data matching in fraud cases;
- where the unemployment is due to voluntary leaving an indefinite disqualification is applied; and
- refusals of suitable jobs or training result in benefit disqualification of between 7 and 12 weeks.

The focus has shifted to active measures to stimulate employment. There are targeted wage subsidies, self-employment assistance to support persons starting new businesses, targeted earnings supplements and job creation partnerships to help unemployed persons to acquire work experience. Following this comprehensive reform, some concerns have been expressed that this has gone

too far and now some categories such as part-time workers, who are predominantly female, may have difficulties in qualifying. It appears that the debate in Canada on this important programme is still on-going and that the process of change is likely to continue.

(iii) *United Kingdom*

In the 1990s concerns arose that despite satisfactory economic growth relatively large numbers of social security beneficiaries were of working age. The UK Government's approach to maximising the numbers in work is through:

- More active personalised labour market policies to move more beneficiaries into work;
- Measures to ease the transition into work;
- Measures to ensure that work pays better than welfare.⁷⁵

More active labour market policies Claimants to Job seekers allowance must agree to an action plan for job search and have to report every two weeks to the Job Centre for review of progress. Failure to comply leads to sanctions that result in the reduction or termination of benefit. Although generally successful, it was decided that this system needed more intensive targeting for particular groups. Special programmes which are termed *New Deals* were devised. Summarised below is a selection of typical categories that present challenges to many Unemployment Benefit schemes.

New deal for young people This offers special help to 18 to 25 year olds unemployed for six months through intensified support on careers advice and job search for 4 months followed by mandatory full-time activity through one of the following options:

- Work experience with an employer or a voluntary organisation;
- Training or education directed at particular occupations; and
- Practical help in applying for jobs, including interview practice.

Subsequent follow-up takes place to ensure that experience is utilised to ensure career prospects are enhanced. The initial evaluation indicated that long-term youth unemployment was reduced by about 40 per cent and that the system is close to self-financing. One of the success factors is considered to be employer involvement in the design of the scheme.

New deal for the long-term unemployed. This focuses on persons over age 25 who are unemployed for 18 months or more (initially for 24 months) and consists of personal adviser services for job search, a wage subsidy and opportunities for full time education and training. In the first two years over 250,000 had joined the scheme and over 45,000 had found jobs. From April 2002, when the scheme was extended to persons unemployed for eighteen months or more, the unemployed have to undertake three months mandatory activity on similar options to the new deal for young people.

New deal for 50+ From April 2000 persons aged 50 or more and unemployed for six months or more were given personal advisers, training support and employment financial credits of amounts according to whether the aim is full-time, part-time or self-employment.

The introduction of Job-Centre Plus was a noteworthy development after decades of reliance on coordination between the offices of the Department of Social Security and employment exchanges under the Ministry of Labour. In October 2001 Job Centre Plus was established by merging the Benefits Agency from the Department of Social Security and Employment Services from the Ministry of Labour into a single operational unit. This comes under the newly-created Department of Work and Pensions. The purpose is to emphasise work rather than welfare as the major objective of the system. Personal advisers for clients and enhanced IT systems are key features which aim to provide efficient services to employers and clients of the system.

One of the obstacles to re-employing persons on social security benefits has been the disincentives created by gaps in cash flows in the transitional period and the loss of some entitlements accruing to long-term beneficiaries. This has been addressed by extending the duration of certain types of cash benefits for persons so that they overlap with initial earnings and ensure that they

⁷⁵ The main source of information is a country paper presented at the International Workshop on the Role of Employment/Unemployment Insurance under the New Economic Environment, Seoul, Korea September 2001.

have sufficient financial incentives to re-enter the work force and rely on their earnings.

11.3.5 Analysis of unemployment insurance schemes in Asia

Figure 11.1 contains summary information on 6 of the unemployment insurance schemes in Asia comprising one of the oldest in Japan launched in 1947 and the newest that were introduced in Turkey in 2000 and Thailand in 2004. This description highlights the coverage, financing, qualifying conditions, benefit entitlement and administration as illustrating some national approaches to the main features of interest for this study.

(i) Coverage

is often introduced at a late stage in the development of national systems of social security protection and it is to be expected that the new scheme will be extended to the same types of insured persons, with the exception of voluntarily insured persons and self-employed contributors who are usually ineligible for this form of social insurance. This is the situation in Turkey and Thailand whilst the delivery of unemployment insurance benefits was delayed by 24 months in Mongolia from the date of introduction of the new comprehensive social insurance scheme in order to build up the finances of the unemployment insurance branch

The scheme in China that was brought into force in 1986 had as its main target the employees in state-owned enterprises which typically employed 90 per cent or more of urban employees and were due for re-structuring, involving the redundancy of many millions of workers across the country. The scheme has now been extended to urban enterprises and institutions. Japan has achieved very wide coverage amongst all types of employees, including separate schemes for civil servants, seamen and day labourers (or casual workers), except for enterprises with fewer than 5 regular workers in the agriculture, forestry and fishing sectors. The latter are entitled to join the scheme voluntarily but the enterprises and their employees opting to join pay higher contribution rates that are based on past benefit experience.

The Republic of Korea has made rapid strides to extend the unemployment insurance scheme that was launched in 1995 that came under severe pressure when the Asian financial crisis caused extensive unemployment in the country. Special

schemes were established for categories not covered by the main scheme. However, the scheme is not compulsorily enforced amongst enterprises with fewer than 5 workers in the agricultural, forestry, fishing, hunting sectors, or small-scale construction projects or amongst domestic workers all of whom have the right to membership on a voluntary basis.

(ii) Financing

Unemployment is a short-term contingency which is difficult to predict with the same degree of accuracy as for other social security contingencies. The main determinants of unemployment benefit costs are the coverage, the extent and duration of unemployment amongst the protected groups and the standards of income support. A pay-as-you-go system is appropriate with a contingency reserve of a minimum of 6 months benefit expenditure. This system, which is backed up by a government guarantee of solvency, has advantages over holding substantial reserves that may be vulnerable to diversion.

The cost of administration of the Fund has to be estimated and issues may arise about the method of financing employment services and training schemes. There is no standard pattern but generally the unemployment insurance fund is responsible for the costs of administering the fund but not the employment services and training schemes which may be financed mainly or entirely by government budgets. These two types of services are available to the population as a whole, including new job-seekers who were not previously insured, and not only the unemployed. In such situations, the social security organisation may pay for the services provided through a formula related to numbers and costs of claims work at the employment offices and the costs of training courses that were provided to the unemployed. Practices vary in regard to these different types of administrative costs.

Three of the countries rely on bi-partite financing whilst three also make use of government subsidies. Consequently, there is some variation in the contribution rates charged as Mongolia levies a total of 1 per cent shared equally between employers and employees compared with a total of 4 per cent in Turkey consisting of 1 per cent each by employees and the government and 2 per cent by employers. As already mentioned, Japan has introduced some differential contribution rates for employers and employees whilst

government provides 25 per cent of benefit costs (33.3 per cent for the special scheme for casual workers) and 12.5 per cent of special allowances for new-born children and for older workers.

In the Republic of Korea, which operates an Employment Insurance Scheme (EIS), employees, pay 0.45 per cent and employers are charged between 0.7 and 1.3 per cent according to the size and type of enterprise. These variable rates are related to the vocational training systems which come within the framework of the Job Skill Development Programme; the latter is seen as crucial for economic development on the premise that the country can obtain a comparative advantage through a skilled workforce. The separate fund finances training for employees as well as the unemployed. Another feature is that employers may obtain low-interest loans from this fund for the purpose of establishing vocational training systems and purchasing equipment. The EIS scheme operates three funds for Unemployment Benefit, Job Skills Development and Employment Stabilisation respectively. One of the latter's aims is to support enterprises financially through difficult periods by means of loans in order to prevent or minimise lay-offs.

(iii) Qualifying conditions.

As a short-term benefit, the qualifying conditions relate to recent periods of insurable employment which in some instances is combined with a requirement for a longer basic period of Unemployment Insurance contributions paid at any time since entry into Unemployment Insurance. Another series of conditions are applied in relation to employment – that the claimants are registered at the employment office and are capable of and available for work and usually that they are actively seeking work.

The objective of the insurance conditions is to balance requirements for proof of covered employment with the needs of the unemployed for a partial replacement income. Mongolia imposes a strict qualifying test of 24 months contributions paid at any time and 9 monthly contributions in the 9 months preceding the unemployment. The qualifying condition in Turkey consists of a minimum of 600 days of contributions in the last 3 years including the 120 days before the unemployment commenced. In contrast, the rule in China is a minimum of one year insurance, Japan calls for 6 months

contributions in the last 12 months, or 1 year of insurance in the last 2 years for part-time workers, Korea stipulates only 6 months coverage in the last 18 months and Thailand 6 months contributions in the 15 months preceding the commencement of the unemployment.

(iv) Benefit entitlement

In general, benefit rates are set so as to ensure a basic level of income and adequate incentives to return to full earnings status, and duration also is carefully determined in order to allow a reasonable but not too lengthy amount of time to obtain re-employment. Countries in this selection provide examples of different approaches such as standard systems in some countries and variable entitlements according to factors considered important in others.

In **China**, local governments set the benefit rates between the public assistance scales and the local minimum wage and pay for up to one year where the unemployed person has less than 5 years insurance, 1.5 years for from 5 to less than 10 years and 2 years for persons who have contributed for 10 years or more. The replacement rate is relatively low in the context of low-reemployment rates.⁷⁶

The Republic of **Korea** applies a 7 days waiting period and pays 50 per cent of insurable earnings for between 90 days, which is for persons with from 6 to 12 months coverage, and a maximum of 240 days for those with 10 or more years coverage or are over age 50 or are disabled; the benefit rate is protected by a proviso that it cannot be less than 90 per cent of the minimum daily wage whilst the maximum is prescribed in monetary terms (currently 35,000 won). The scheme is also able to assist persons who need to move to other areas for employment purposes by paying a National Job-Seeking Allowance and other expenses; benefit duration can be extended for the purpose of income support during training.

Japan has developed a complex system which takes into account several factors in determining the rates and duration of benefit, including the levels of average earnings as the amounts payable vary inversely to the benefit of lower-paid workers, the age of the unemployed if between

⁷⁶ Unemployment Protection System in China: Reforms, Progress and Challenges' Vivian Chen, World Bank, presented at the ISSA General Assembly, Beijing, September 2004

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age 60 and 64, whilst benefit duration is related to reasons for the unemployment and may be increased for other reasons. The rate is between 50 and 85 per cent (or 45 to 80 per cent for those claimants who are between 60 and 64 years old) and this is payable after 7 waiting days for between 90 and 150 days according to such factors as:

- Length of coverage;
- Age;
- Reasons for the unemployment; and
- Job prospects.

Additional periods ranging from 30 to 210 days can be paid in case of unemployment caused by an industry in recession which makes re-employment more difficult, with claimants undergoing training or is suffering from physical or mental stress. The scheme also provides a series of special payments such as older worker allowance, new-born child allowance and family care leave benefit, and provides financial support for persons who relocate to take up jobs in other areas.

Mongolia relates the benefit amount to length of insurance. The rate is set at 45 per cent for up to 5 years insurance, 50 per cent for between 5 and 10 years, 60 per cent for from 10 to less than 15 years and 70 per cent for 15 years or more. The maximum benefit duration is 76 working days which commences when the period of severance pay is completed.

Thailand also uses the 7 waiting days rule and pays the persons who are involuntarily unemployed 50 per cent of previous average earnings for up to 180 days in a period of one year. Claimants who left their jobs voluntarily are entitled to 30 per cent for a maximum of 90 days in the period of one year. This is an unusual provision that was included at the request of trade unions concerned about instances of enterprises that did not formally make workers redundant but ceased or were unable to pay them leaving them little option but to leave and seek other jobs whilst their complaints are investigated. In fact, this category of claims for voluntary leaving was the largest in the first year of paying benefits, as explained in Annex 2 that describes this scheme.

Turkey sets the minimum monthly benefit at 50 per cent of average earnings over the last 4 months which is payable for varying periods

related to length of service -180 days for workers with 600 days of contributions, 240 days where 900 days were paid and for 300 days if 1,080 or more days were paid into the scheme.

(v) *Administration*

All unemployment insurance schemes have to apply both insurance and labour market conditions and therefore need to establish suitable arrangements to coordinate these functions, including compatible computer systems linking the social security and employment offices respectively for exchanges of information on claims. The scheme in China is administered by local social insurance agencies in municipalities in collaboration with the local networks of employment offices. The unemployment insurance scheme in Japan comes under the jurisdiction of the Ministry of Health, Labour and Welfare and is implemented by the Employment Insurance Sections of the prefecture Labour Departments and the Public Security Offices which collect contributions and pay benefits. In the Republic of Korea the Korea Labour Welfare Corporation collects contributions and the Employment Security Offices pays the benefits. In Mongolia the State Social Insurance General Office (SSIGO) administers an extensive and integrated scheme and in the case of unemployment insurance the SSIGO collaborates with the "employment services under the Central Employment Office. Thailand operates a comprehensive social insurance scheme through the Social Security Office (SSO) under the Ministry of Labour and has launched the unemployment insurance in collaboration with two other organisations under the Ministry – the Departments of Employment and of Skills Development respectively. The Social Insurance Institution in Turkey has added unemployment insurance to its existing scheme and administers it in conjunction with a national network of employment service offices.

11.4 Development of unemployment protection

11.4.1 *Policy framework and issues*

(i) *Employment as the prime objective*

Undoubtedly, employment creation is the overarching goal of countries of all types, and developing countries are formulating their own

national policies and strategies in this sphere. The general discussions on social security held at the International Labour Conference in June 2001 included the subject of Income Security for the Unemployed and Employment. In the debate, numerous references were made to the particular problems of developing countries and the prime need for measures to assist the unemployed through such measures as labour intensive employment projects and by carefully designed unemployment insurance schemes within the framework of active labour market policies to help the unemployed. Some of the main points in the conclusions concerning social security were as follows:

*For persons of working age the best way to provide a secure income is through decent work. The provision of benefits to the unemployed should therefore be closely coordinated with training and retraining and other assistance they may require to find employment. Unemployment benefits should be designed so that they do not create dependency or barriers to employment. However, benefits must be adequate. Where it is not deemed feasible to establish a system of unemployment benefits, efforts should be made to provide employment in labour intensive public works and other projects as is successfully done in a number of developing countries.*⁷⁷

(ii) Role of unemployment benefit schemes

This study has shown that unemployment benefit schemes are part of a system to return unemployed persons to suitable employment consisting of policies and strategies for job creation, comprehensive employment services (comprising as a minimum, assessment, vocational guidance, advice on job search and access to vocational training programmes). The issue for many developing countries as they implement and adapt employment policies to changing economic situations is whether and when to introduce an unemployment benefit scheme.

Unemployment protection can be provided in different ways. It is widely recognised that the requirements for establishing an effective unemployment insurance scheme are difficult to meet in the majority of lower-income developing countries and that a more feasible strategy may be

to provide employment through labour-intensive public works and similar projects. A key step therefore is to define target groups and the appropriate methods of assisting them. Public works projects are designed for the unemployed and under-employed persons who are generally low-skilled and part of the *working poor* in rural and urban areas. This type of action involves the commitment of public funds to carefully-designed projects that contribute to the improvement of the infrastructure, and, as such, constitute a valid strategy to cope with part of the unemployment problem. For workers in the formal sector who are members of contributory social security schemes there is a choice of methods between unemployment insurance and unemployment assistance schemes, but it is assumed that such a scheme would be self-financing through contributory social insurance and not a form of unemployment assistance financed by government revenues for which there are many competing priorities. The extension of coverage of national social security schemes is a prime aim which is important for unemployment insurance schemes that should protect persons particularly vulnerable to unemployment as well as those in secure jobs.

Policies for job creation may encompass the establishment and expansion of effective networks of employment service offices linked to Labour Market Information Technology systems and vocational training schemes which may use private as well as public sector providers. The development of such systems would increase the feasibility of, and may be considered as pre-requisites for, establishing a modest unemployment insurance scheme that can play a key role in providing adequate levels of income support for a limited duration to enable the unemployed to take sufficient time to find decent work with the aid of the employment services, if required. On the other hand, introduction of a scheme before the economy has the capacity to generate an adequate supply of new jobs on a regular basis and when the labour market institutions are not fully established means that the system may become liable for cash payments for longer durations than estimated raising issues of solvency and whether objectives can be achieved.

(iii) Severance pay

Issues may arise when severance pay is prescribed under labour protection legislation.

⁷⁷ Conclusions concerning social security in "Social Security A new consensus" ILO Geneva, 2001

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This type of benefit may stipulate payments by employers to workers who are declared redundant (and possibly also on retirement) and may consist of entitlement to a certain number of weeks or months pay per year of service within some limits. Employers may resist proposals for them to pay into unemployment insurance schemes as well as to provide severance pay. Article 22 of Convention No.168 provides for the coordination of severance pay and unemployment insurance as follows:

Where protected persons have received directly from their employer or from any other source under national laws and regulations or collective agreements, severance pay, the principal purpose of which is to contribute towards compensating them for loss of earnings suffered in the event of full unemployment:

- *the unemployment benefit to which the persons concerned would be entitled may be suspended for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered; or*
- *the severance pay may be reduced by an amount corresponding to the value converted into a lump sum of the unemployment benefit to which the persons concerned are entitled for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered, as each member may decide.*

This would mean that an employee who receives 3 months severance pay could have the following adjustments in unemployment benefit:

- a delay of 3 months in entitlement to benefit or a reduction of 3 months in the duration
- as above but on a partial basis such as a delay or reduction of 2 months in respect of the 3 months severance pay.

Very little information is available on the adjustments made, if any, in some countries in the entitlements under these two schemes (however, the example of Mongolia is given in section 11.3 (iv) above), but it appears that in many countries rights to severance pay are unaffected by the introduction of unemployment insurance. The main alternative possibilities in regard to severance pay and unemployment benefits are:

- Treat them as separate and complementary benefits;
- Reduce severance pay entitlements to some extent or phase out altogether with the introduction of the unemployment insurance scheme; and
- Adjust entitlements under unemployment insurance to compensate for the expenditures on severance pay.

National systems of social protection are built-up gradually and it may well be appropriate in particular countries to adjust the existing entitlements in relation to new benefits for the same or similar contingency after careful reviews and social dialogue. The guidelines for this type of adjustment should include the preservation of acquired rights to benefits and rights in the course of acquisition under the employment contracts and legislation on labour protection and social security.

11.4.2 Conditions for the introduction of limited unemployment insurance protection

In the majority of developing countries the paramount objective is to adapt and revitalise the economy to raise the living standards of the population and improve employment generation. When expansion of the economy and development of the private sector gain more momentum and economic indicators show consistent improvement, this situation may in due course warrant investments in employment services and labour market information as well as increases in vocational training programmes to counter skills shortages that can slow progress in economic development and employment generation. Such a range of developments could provide a basis for considering the role that a suitable modest unemployment insurance scheme could play in adapting labour supply to demand and maintaining progress in implementing decent work priorities

The analysis conducted by the ISSA Technical Commission on Unemployment Insurance and Employment Maintenance found that decisions to introduce unemployment benefit may be linked to improvements in a country's income and to its

geographic area.⁷⁸ The latter refers particularly to trends that occurred in Eastern Europe when unemployment insurance schemes were introduced as a political imperative in some countries to cope with the new phenomenon of unemployment although all pre-requisites were not necessarily met. Such trends can develop also from the introduction of a number of national schemes in a particular region, such as East Asia. As regards higher per capita incomes, the study found that the generally low income levels of the newly independent countries after 1949 contributed to the generally slow pace of adoptions of unemployment benefit schemes after that date. However, social and political factors that vary in importance from country to country may have considerable significance in the decision-making process on this issue.

The low number of even short-term unemployment insurance schemes in developing countries is not surprising considering the requirements for the introduction of unemployment insurance. Essential conditions include:

- A sound or reasonably sound economic situation generating consistently higher demands for labour and improving affordability, as indicated by improved per capita incomes amongst the insured population;
- Support for the investment of public funds in organizing the network of employment centres and training schemes;
- A wide consensus on the establishment of the contributory unemployment insurance scheme, especially the essential sense of solidarity amongst the insured employees for a system of pooling risks in contrast to defined contribution schemes with which they are familiar since some may expect to draw heavily on the scheme and others may envisage never claiming;
- A well-functioning national network of employment service centres operating with access to suitable vocational training courses, and a system of active labour market programmes that can be brought into force when necessary; and

- An efficient social insurance administration with consistently low contribution arrears and the capacities to gradually extend coverage and to collaborate with employment centres in the implementation of unemployment insurance, the most difficult to administer efficiently of all social insurance schemes.

It is most advisable that social protection policies are developed in conjunction with labour and employment policies and this applies particularly strongly to the contingency of unemployment which underlines the importance of close and coordinated planning in this sector. In most developing countries there is a lack of a central or coordinating body for the formulation of national social security policies and strategies through extensive social dialogue, although it is of paramount importance to establish clear priorities for social security development in every country considering the limited contributory and administrative capacity. National Steering Committees will therefore undertake this vital function when drawing-up national action plans for the future development of social protection in each country.

⁷⁸ International evidence on unemployment compensation prevalence and costs" Wayne Vroman, Economist, Urban Institute USA.

Appendix to Chapter 11 – International Experience

Appendix 11A Unemployment Insurance schemes in selected Asian countries

Table 11.1 Insurance schemes in selected Asian countries

Country & date of law Coverage of the scheme	Contributions			Qualifying Conditions	Benefit Entitlement
	Employee	Employer	Government		
<p>CHINA 1986. Local government administered social insurance scheme</p> <p>Employees of urban enterprises & institutions & state- owned enterprises, regardless of location.</p>	1% gross earnings	2% of gross payroll	Support from municipal government budgets	Minimum of 1 year insurance, involuntarily unemployed, not receiving OAP, registered and regularly reporting at employment service agency and actively seeking employment Benefit may cease or be suspended for refusing suitable job offer	Local governments set rates at levels higher than local public assistance benefit but lower than the local minimum wage. Payable for a maximum of 1 year for less than 5 years coverage, 1.5 years for 5 to less than 10, and for 2 years maximum for 10 years or more
<p>JAPAN 1975 Employment Insurance</p> <p>Employees under age 65. Voluntary coverage for firms with fewer than 5 regular workers in agricultural, fishing and forestry industries. Special schemes for casual workers, seamen and civil servants.</p>	0.75% of earnings: 0.80% for agricultural, fishing, forestry & construction workers	1.05% of payroll; 1.15% for agricultural, fishing, & forestry workers and 1.25% for construction workers	25% (33..3% for daily workers) of benefit costs and special allowance and 12.5% of costs of new-born child and older workers allowances	6 months insurance in last 12 months (or 1 year of insurance in last 2 years for part-time workers) Registered for employment, capable of, and willing to work. Unemployment not due to voluntarily leaving, serious misconduct, refusal of job offer or non-attendance at suitable training course (otherwise disqualified for from 1 to 3 months)	<p>Between 50 and 80% of claimant's average daily wage over last 6 months (higher % for lower paid) or 45 to 80% if between 60 and 64.</p> <p>After a 7 day waiting period benefit is payable for between 90 and 150 days according to length of coverage, age, reasons for unemployment and job prospects. Additional 30 to 210 days possible in case of unemployment due to an industry in recession, claimant is undergoing training or suffering from physical or mental illness. Minimum daily benefit is JPY 1,696 and maximum is JPY 7,935.</p> <p>In addition the scheme pays older worker allowance, new-born child allowance, family care leave benefit and special daily or monthly allowances.</p>
<p>REPULIC OF SOUTH KOREA 1993 implemented in 1995</p> <p>All employees below age 65.</p> <p>Voluntary coverage for agriculture, forestry, fishing and hunting businesses with fewer than 5 employees and small-scale construction projects (net costs below 20m. won) and domestic</p>	0.45 % of annual wages before tax	Between 0.7 and 1.3 % of annual payroll (depending on type of business)		At least 6 months coverage in last 18 months Must be registered for employment, capable of and available for employment. Unemployment must not be due to labour dispute, voluntary leaving, misconduct or refusal of suitable job offer	Benefit is equal to 50% of insured 's average daily earnings during the 3 months prior to unemployment and is payable after a 7 day waiting period for 90 days for those with between 6 and 12 months coverage, for 240 days with more than 10 years coverage or aged 50 or over or is disabled Minimum rate is 90%of minimum daily wage and maximum is 35,000 won.

Country & date of law Coverage of the scheme	Contributions			Qualifying Conditions	Benefit Entitlement
	Employee	Employer	Government		
<p>employees.</p> <p>Exclusions: Persons newly employed after age 60, casual workers employed for less than 80 hours per month, family labour and the self-employed.</p> <p>Special schemes for civil servants, private school employees, military & employees of the special post office</p>					
<p>MONGOLIA 1994 Implemented in 1995.</p> <p>All employees. Self-employed may join the main scheme voluntarily but not for unemployment insurance.</p>	0.5 %	0.5%		<p>Has paid 24 months contributions at least and contributed continuously for last 9 months before unemployment. Is capable of available for and is actively seeking work.</p>	<p>For up to 5 years insurance. benefit is 45 % of average earnings over last 3 months subject to a minimum of 75% of the minimum wage and payable for maximum of 76 working days commencing on the day following the expiry of the period of severance pay provided under the Labour Law.</p> <p>For from 5 -10 years insurance 50% is payable, from 10 to 15 years the rate is 60%, and 70% for 15 years or more</p>
<p>THAILAND 1990 Implemented in 2004</p> <p>All employees aged 15-60. No voluntary coverage for the unemployment insurance scheme</p>	0.5 % of gross wages	0.5 % of monthly payroll	0.25% of monthly wages	<p>6 months contributions in last 15 months before unemployment</p> <p>Registered for employment, ready and able to accept a suitable job, unemployment not due to dishonesty or a criminal offence against employer or neglecting duty for 7 consecutive days or causing serious damage to the workplace.</p>	<p>For involuntary unemployment, 50% is payable for up to 180 days in a period of one year; for voluntary unemployment benefit is 30% for up to 90 days during a period of one year.</p> <p>A 7 day waiting period applies to each claim</p>
<p>TURKEY 1999 Implemented in 2000</p> <p>Employees aged 18 or more working under a service contract in public or private sector</p> <p>Exclusions: civil servants, workers in agriculture, forestry, domestic service , military service students and the self-employed</p>	1% of monthly earnings	2% of monthly payroll	1% of monthly earnings	<p>600 days of contributions in last 3 years before unemployment, including the last 120 days before unemployment</p>	<p>Minimum monthly benefit is 50% of average earnings over last 4 months.</p> <p>Duration is 180 days for workers with 600 days of contributions, for 240 days if 900 days paid, and for 300 days if 1,080 or more days were paid .</p>

Source: Main source "Social Security Programs Throughout the World: Asia and the Pacific, 2004, SSA USA.

Appendix 11B – Unemployment Insurance in Thailand

11B.1 Background

The Social Security Act that was promulgated in Thailand in 1990 provides for all 9 social security contingencies but, unlike other branches of the scheme, no date was given for the introduction of unemployment insurance. No particular priority was accorded to it due to good economic development and some uncertainty about the role and suitability of this type of social security. Employees in both white and blue collar jobs were thrown out of work when the Asian financial crisis occurred in 1997 and this changed the attitudes to unemployment benefits. Discussions and planning exercises took place and ILO provided technical assistance to the Social Security Office (SSO) for the design and costing of a suitable unemployment insurance scheme. However, the finalisation of the scheme and a decision on its introduction took some time as extensive social dialogue took place in the course of which changes were made in the standards of the scheme. It was finally introduced with effect from January 2004.

The main provisions of the scheme are summarised below.

11B.1.1 Coverage

The social security scheme covers all enterprises with one or more workers on a compulsory basis. The scheme does allow some voluntary coverage but this does not apply to unemployment insurance.

11B.1.2 Financing

The total contribution is 1.25 per cent of insurable earnings. This is contributed through the system of tripartite financing that is in force for other branches of the scheme. For unemployment insurance the shares of contributions are as follows:

- Employers and employees each pay 0.5 per cent of insurable earnings with a ceiling of THB 15,000 per month;
- The government pays 0.25 per cent of insurable earnings on the same basis as employers and employees;

11B.1.3 Entitlement

The conditions to be satisfied are:

- At least 6 contributions were paid within a period of 15 months before the commencement of unemployment;
- Registered with the employment office for further employment;
- Being able to work and being ready to take a suitable job if offered;
- No objection to job training;
- Must attend at the employment office as frequently as necessary;
- Unemployment is not caused by:
 - performing duties dishonestly;
 - intentionally committing a criminal offence against the employer;
 - intentionally causing damage to the employer;
 - seriously violating work regulations or rules or lawful order of the employer;
 - neglecting duty for 7 consecutive days without reasonable cause;
 - causing serious damage to the employer as the result of negligence; and
 - being imprisoned by a final decision except for an offence which has been committed by negligence or is a petty offence.
- not being entitled to old-age benefits; and
- not a voluntarily insured person under article 39 of the Act.

Provided that the above conditions are satisfied, entitlement is from the eighth day from the last day of employment and comprises:

- employment services;
- job training;
- cash benefits for persons who were laid off of 50 per cent of average insurable earnings for up to 180 days in a period of one year; or
- for persons who resigned from their jobs 30 per cent of average insurable earnings for up to 90 days in one year.

The inclusion of voluntary unemployment is controversial and was introduced at a late stage after a period of negotiation amongst the stakeholders. The contention of the trade

unionists was that in some instances workers were left unpaid and found themselves with no option but to leave for other jobs after lodging complaints with the labour office. This could be due to serious financial problems, or the collapse of the enterprise, but in some instances such employers were seeking to avoid liabilities for severance pay which is payable to workers declared redundant and not those who resign from the their jobs.

The final agreement was to include voluntary leaving provided that the unemployment insurance benefit is only 30 per cent of insurable earnings and is payable for a maximum of 90 days. The importance of the provisions on voluntary leaving is shown by the fact this is by far the largest category in the claims statistics in table 1 below. Another method of covering such situations followed in some other schemes is by inclusion of the condition that whilst voluntary unemployment may be excluded the unemployed may be able to claim on the grounds that resignation was justified by *good cause*. This contention may be submitted to an arbitration court or labour committee for a ruling.

11B.1.4 Claims experience and procedure

Data on unemployment insurance claims to unemployment benefit over the period from July 2004 to June 2005 are given in table 1.

Table 11.2 Claims data July 2004 to June 2005

(Costs in millions of THB)

Category	July-December 2004		January - June 2005		TOTALS	
	No.	Costs	No.	Costs	No.	Costs
Lay-off	5,432	73.07	9,499	216.27	14,931	289.34
Voluntary	8,102	73.32	12,546	36.42	20,648	109.74
End of Contract	2,188	8.25	733	9.04	2,921	17.29
Totals	15,722	154.64	22,778	261.73	38,500	416.37

Source: SSO Thailand

The most notable feature is that 53.63 per cent of claims were on the basis of voluntary leaving, whilst redundancies accounted for 38.78 per cent; however, almost 70 per cent of benefits expenditures was on lay-offs due to the higher benefit entitlement for this category. Another feature was the increase in claims from 15,722 in the first 6 months to 22,788 in the second period

of 6 months in 2005. This may be due to a combination of factors such as:

- higher unemployment;
- more persons qualifying; and
- wider dissemination of information about the scheme amongst the workforce.

11B.1.5 Procedure

The SSO administers the scheme in collaboration with the Department of Employment which operates a network of Government Employment Offices. Vocational Training Programmes are organised by the Department of Skills Development

When a worker leaves employment the employer submits a form 609 to the local SSO office giving the date of separation and the reason for the termination of the employment. The worker should report to the Government Employment Office (GEO) to register for re-employment as the first step. If there is no immediate prospect of re-employment during the 7 days waiting period the worker completes form SSO 207 at the GEO to claim unemployment benefit. This information is passed to SSO so that the entitlement issues can be addressed in the interim period before payment is due at the end of the month. The GEO will first interview the claimant on his/her efforts to find work and if it certifies that the worker is eligible, SSO checks the insurance conditions, determines average earnings and proceeds to make a payment to the claimant's bank account for the number of benefit days.

This procedure is of the one-stop type to assist the unemployed, ensure that the emphasis is on re-employment and avoids pressures on SSO offices from claimants who want cash payments, which was the practice of many persons before the launching of unemployment insurance and insistence on provision of bank account numbers. The SSO is able to monitor any other benefit claims that could be made such as to sickness or maternity benefits which would conflict with the unemployment insurance claim that the person is available for and capable for work. Subsequent payments are made at monthly intervals on the basis of GEO rulings that the claimants meet all of the labour market conditions. Benefit payments cease on re-employment, completion of the maximum duration, or a finding that the claimant does not satisfy the conditions imposed at the GEO regarding willingness to take up work or training proposed by the GEO.

11B.1.6 *Financing*

Over the period from January 2004 to June 2005 the total contribution income of the unemployment insurance fund was THB 10,753.98 million. The main expenditure was THB 416.37 million on benefits, as noted above.

11B.1.7 *Final comments*

In June 2005 the Thai Government announced some measures to conserve energy in view of the

impact of the high oil prices. It is possible that some economic contraction may occur and that the role of the unemployment insurance scheme may come more sharply into focus. The initial experience may have allayed concerns about the viability of an unemployment insurance scheme but careful monitoring and evaluation will be necessary during different economic situations so that the scheme can be adapted as necessary to economic and labour market requirements.

Appendix 11C Barbados unemployment benefits scheme

11C.1 Background

Within CARICOM, Barbados, which has a population of 267,000, is the only country that has an unemployment insurance programme. This scheme is administered by the National Insurance Board (NIB) and has been in existence since July 1981. The NIB also provides pensions, and benefits for sickness, maternity and employment injury. The total contribution rate is 14.39 per cent which is distributed into the separate funds for each branch of the scheme.

The initial contribution rate for unemployment insurance was set at 2 per cent and shared equally by the employer and employee. Since then this rate has been adjusted 6 times but the 50/50 relationship between employer and employee has remain unchanged. There have also been several changes to the benefit rate and maximum duration. In 1981, benefits were 40 per cent of average insurable wages for a maximum of 13 weeks. Today, 60 per cent of average insurable earnings is payable for up to 26 weeks. The following two tables show the main changes made to benefit provisions and the contribution rate since 1981.

Table 11.3 Major changes to benefit provisions

Month of Change	Benefit Rate & Maximum Duration
July 1981	40% of AWIE for up to 13 weeks
April 1984	50% of AWIE for up to 13 weeks
June 1985	60% of AWIE for up to 26 weeks
October 1991	60% of AWIE for first 10 weeks + 40% of AWIE for next 16 weeks
June 1996	60% of AWIE for up to 26 weeks

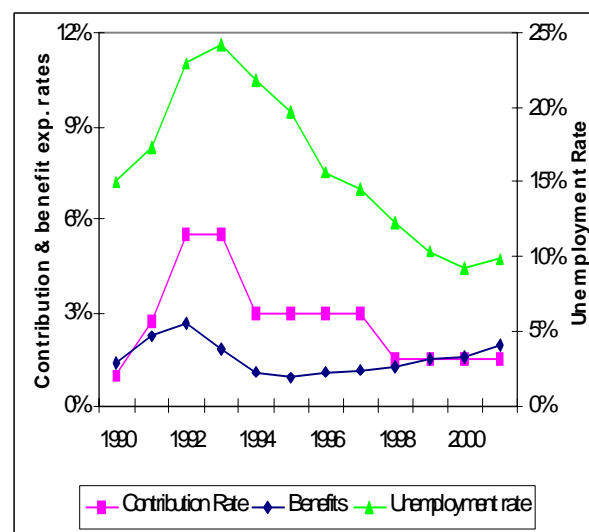
AWIE – Average Weekly Insurable Earnings

Table 11.4 Changes to contribution rate

Month of Change	Combined Contribution Rate
July 1981	2.0%
May 1987	1.0%
October 1991	2.75%
December 1991	5.5%
January 1994	3.0%
September 1998	1.5%

The following chart shows how the Barbados national unemployment rate (top curve on the chart) changed between 1990 and 2001, how the unemployment insurance contribution rate has been adjusted and the actual level of benefit expenditure. During a recession in the early 1990's unemployment reached almost 25 per cent. In response, the combined contribution rate (centre curve on the chart) was increased to 5.5 per cent and benefit expenditure (bottom curve on chart) approached 3 per cent of insurable wages. With benefit expenditure of less than 1.38 per cent since 1993, there have been two rate reductions and presently the unemployment insurance contribution rate stands at 1.5 per cent of insurable earnings. Since 1995 benefit expenditure has increased gradually, surpassing income in 2000 and 2001. However, large annual surpluses in prior years have resulted in the unemployment fund being very well funded, with reserves now of 3.5 times annual expenditure.

Figure 11.1 Barbados unemployment, contribution & benefit expenditure rates, 1990 to 2001



The Barbados experience confirms that unemployment expenditure tends to be cyclical and more volatile than the traditional short-term social security benefits. As a result, authorities there have responded on several occasions by changing the contribution rate when necessary. Some characteristics of the Barbados unemployment insurance scheme are:

- The unemployment benefits fund is separate from the National Insurance Fund;
- Permanent government employees and self-employed persons do not contribute and are thus not covered;
- The employer and the employee share contributions equally;
- The contribution wage ceiling is the same as for other National Insurance benefits;
- To qualify, claimants must have been insured for at least 52 weeks; and
 - Have 20 weeks weekly contributions in the three consecutive quarters ending with the 2nd quarter preceding unemployment;
 - seven weekly contributions in the 2nd quarter preceding the one in which unemployment began.
- Benefits are 60 per cent of average weekly insurable earnings;
- Benefits are payable for a maximum of 26 weeks in any continuous period of unemployment, or for an aggregate of 26 weeks in the 52 weeks preceding;
- If the entitlement to benefit is exhausted, a new unemployment benefit may not be payable until the expiration of 52 contribution weeks from the last week in which benefit was paid;
- The first 3 days of a period of unemployment are treated as a waiting period. If however, unemployment lasts at least 3 weeks, benefit is payable from the first day.

Table 11.5 Highlights of recent unemployment benefit scheme experience

Scheme Element	2001	2000	1999
Unemployment rate	10.4%	9.3%	9.9%
Contribution Rate	1.5%	1.5%	1.5%
Expenditure as a % of Ins Wages	1.94%	1.55%	1.49%
Average Duration (benefit days)	69	67	68
# Claims Approved	15,946	10,533	10,570
# Claims per thousand contributors	162	109	106

11C.2 Severance payments scheme

Whilst many countries enact legislation on entitlement to severance pay when workers are retrenched, it is sometimes difficult for enterprises that have run into difficulties to pay all entitlements. In addition, there are problems of compliance with some types of employers who try to evade such financial commitments. Barbados has established a Severance Payments Scheme that ensures that workers are paid either by their employers or by the Severance Fund on behalf of the employer. Employers pay 1 per cent of insurable earnings into the fund. Entitlement to severance pay requires completion of 104 continuous weeks of employment with the same employer. Benefits are:

- 2.5 weeks of basic pay for each year worked up to 10 years;
- 3.0 weeks of basic pay for each year worked between 10 and 20 years;
- 3.5 weeks of basic pay for each year worked between 20 and 33 years.

Under the scheme,

- 1 employers pay severance pay to their employees and are entitled to a 25 per cent refund from the Fund, and
- 2 if employers refuse or cannot make these payments to their employees the Fund pays the employee and claims from the employer.

11C.3 Unemployment insurance in the Republic of South Korea

11C.3.1 Overview of the employment insurance system

Although the Republic of South Korea began to develop social security protection only in the 1970s it rapidly extended the scope of coverage of contingencies and persons, notably in respect of health care and old-age protection. A lower priority was given to unemployment protection due to low levels of unemployment and disagreements over the need for an unemployment insurance scheme. It was realised that active labour market policies were essential and a comprehensive system was developed over the long-term called employment insurance comprising unemployment insurance, job training and employment maintenance and promotion subsidies This is coordinated with other elements of the safety-net system including:

- The Livelihood Protection Programme for the poor,
- A Life Stabilisation Fund for the unemployed whose assets fall below a specific level, and
- A Public Works Programme for the unemployed and spouses of low-wage workers.

11C.3.2 Coverage of unemployment insurance

The unemployment insurance scheme, which was launched in 1995, initially covered enterprises with 30 or more employees and excluded important categories of workers especially part-timers and daily paid workers employed for less than 30.8 hours per week. Coverage was rapidly extended under the impact of the Asian financial crisis which severely affected the country. Unemployment reached unprecedented levels and affected sections of the labour force previously accustomed to secure employment. The unemployment insurance scheme was extended stage by stage until by October 1998 enterprises with 1 or more workers were included. Finally, from July 1999 part-time and daily paid workers employed for a month or more were brought into the scheme. This expansion programme was coordinated with the progressive extension of active labour market measures, such as subsidies for vocational training programmes, to smaller firms until they applied to those with 1 or more worker from October 1998. In addition small businesses with less than 5 workers in agriculture, hunting and fishing are allowed to join voluntarily

11C.3.3 Sources of funds

The scheme was originally financed by contributions of 0.6 per cent of the payroll shared equally by employers and workers and the total contribution for the entire system including labour market measures such as training was fixed at 1.5 per cent. From March 1998 the total contribution was increased to 3 per cent of payroll. Each element in the system has its own premium rate. The current contribution rates are 0.5 per cent for workers and between 0.9 and 1.5 per cent for employers according to the variations they pay for the training programmes related to size of enterprises.

11C.3.4 Benefits

Eligibility for benefits depends on the normal labour market conditions and that contributions have been paid for a minimum of 6 months in the 18 months prior to the unemployment. The benefit rate is 50 per cent of the worker's earnings in the month prior to the job loss. The minimum benefit is 70 per cent of the minimum wage. The duration is related to the length of insurance and to factors such as age and disabilities which provide in broad terms an indication of the difficulties of obtaining re-employment. The maximum benefit periods (in months) are as follows:

Table 11.6 Maximum benefits period Republic of Korea scheme

	Length of insurance (years)			
	1 – 3 years	3 – 5 years	5 – 10 years	Over 10 years
Insured under age 30	3 months	4 months	5 months	6 months
Aged 30 to 50	4 months	5 months	6 months	7 months
Over 50 and persons with disabilities	5 months	6 months	7 months	8 months

As an incentive for persons to find jobs quickly, those job-seekers who find a job within half of the maximum duration for their age group and circumstances, receive a lump-sum payment of one-third of the remaining amount of unemployment benefit.

In addition to the cash benefits health insurance continues to be available for up to 12 months provided that the laid-off worker pays his or her share of the contribution, in which case the health insurance society concerned has to pay the employers' share. Further coverage depends upon the worker paying contributions to certain subsidised health insurance societies.

11C.3.5 Issues

During one review of the scheme it was found that the average numbers of unemployed persons was about 1.4 million persons of whom only about 0.8 million persons or 56 per cent received any form of support as follows:

- 0.15 million from unemployment insurance;
- 0.30 million from public works projects; and
- 0.35 million from the Livelihood Protection Scheme for the poor.

Feasibility Studies

The coordination of these programmes is therefore an essential condition for strengthening the protection provided to vulnerable groups. Priority is given to the expansion of coverage, but one of the major concerns is the extent of non-compliance especially amongst the smaller enterprises and in respect of daily paid workers. In the Korean labour market employees are classified as regular, temporary and daily employees. Temporary employees may be on fixed or indefinite terms and are used by enterprises to regulate numbers on the payroll as they can be readily dismissed and without severance pay. Daily paid workers are employed for fixed periods and automatically cease to be on the payroll. Certain types of employers tend not to declare these two types of employees for social security purposes. The main weakness is the lack of adequate rules on employer record-keeping for

these workers which hamper efforts of inspectors to detect irregularities. Welfare measures have been augmented to meet needs of the low-income persons who fail to qualify for unemployment insurance benefits.

The scheme maintains regular analyses of claims and has identified both long-term unemployment and recurrent unemployment as serious problems. The latter is concentrated amongst the non-regular workers and underlines the problem that it is precisely the most difficult to cover groups which are the most vulnerable to the risk of unemployment. Extension of coverage and strengthening of enforcement are therefore important elements in strategies for further development of unemployment insurance in the country.

Chapter 12 Unemployment Protection in Vanuatu

12.1 Background information

12.1.1 *Relevant developments*

Since early in 2005 there were two relevant developments:

- The Labour Advisory Board was set-up, as envisaged in the last ILO report's Implementation Action Plan, and was planning to meet on 28 June 2005 to consider the proposals for amendment of the WC Bill and the various issues identified in the ILO report; and
- The National Action Plan for Decent Work (NAPDW) was adopted and the relevant sections are outlined next.

12.1.2 *National action plan for Decent Work (NAPDW)*

The NAPDW has a wide scope and for the purposes of this report information is extracted only on social protection and employment respectively.

In the case of social protection the specific items that are prioritised are as follows:

- Finalisation of the Worker's Compensation Bill in 2005;
- Revising and finalising the Occupational Safety and Health Bill in 2006;
- Investigating the possibility of introducing a social health insurance scheme in 2006.

A review of all labour laws is also envisaged.

The NAPDW addresses employment issues and refers to the development of a gender balanced employment policy, creation of employment in the formal sector and rural areas, enhancing vocational training capacities and devising a labour market information system.

In the course of the mission information was obtained on the system of vocational training in the country. The Vanuatu National Training Council (VNTC) was set-up in October 1999 under the Vanuatu National Training Council

Act No.13 of 1999. The NTC has numerous statutory functions but for the purposes of this report the most relevant are its responsibilities:

- to promote and coordinate vocational education and training at all levels within the community and to provide advice to the Minister on the costs and financing of vocational education and training;
- to accredit courses and to authorise course providers (both public and private sector);
- to encourage the adoption of national skill standards with advice from appropriate industry based groups; and
- to support research to determine the labour market and training needs of Vanuatu.

12.2 Report on the ILO national workshop on unemployment protection

12.2.1 *Participation and opening session*

The workshop was held in Port Vila on 16 June 2005 with 22 participants representing the Vanuatu Chamber of Commerce & Industries, the National Workers Union, Department of Labour, Vanuatu National Provident Fund, Ministry of Health, Vanuatu National Council of Women, Department of Economic & Sector Planning and certain other organisations.

An Opening Address was delivered by Mr Joe Bormal Carlo, First Political Adviser of the Ministry of Internal Affairs who expressed the hope that the workshop would contribute significantly to the process of strengthening the present outdated system of workmen's compensation in Vanuatu which has significant weaknesses that need to be addressed. He stated that Vanuatu had requested ILOs technical assistance and advice in developing a new approach and that: *Our objective is to provide both a more effective system of benefits for employees and their families when accidents occur at the workplace and to support safety and health programmes in order to minimise the number of persons injured, killed or suffering from occupational diseases. We are committed to*

achieving this in a cost-effective and economical manner through the setting-up of a social insurance fund that does not impose high costs on employers. Mr Carlo went on to announce that following the workshop the reform plans will be submitted for consideration by the Labour Advisory Board.

12.2.2 Agenda and proceedings

The workshop agenda was as follows:

- 1 Overview of Worker's Compensation Insurance;
- 2 Strengthening of Worker's Compensation Protection in Vanuatu; and
- 3 Unemployment Protection.

12.2.3 Unemployment Protection

The structure of the presentation followed the sequence of the Discussion Paper entitled *Main Concepts and Principles of Unemployment Insurance* which is contained in the next section of this Chapter (section 12.4). The sequence of the report and the discussion was:

- 1 Main Concepts and Structural Features.
- 2 Objectives of Unemployment Insurance Schemes.
- 3 Designing a Scheme.
- 4 Organisation and Administration.
- 5 Experiences of Barbados.
- 6 Experiences of South Korea.

12.2.4 Workshop Conclusions.

The Discussion Paper focuses mainly on the relatively low-cost short-term unemployment insurance schemes of interest to developing countries rather than the more complex and comprehensive schemes established in industrialised countries. The main objective of such unemployment insurance schemes is to provide financial support to insured workers who have become involuntarily unemployed, register for work and are available for, capable of and actually seeking work so that they can take time to find decent work, if necessary with the help of the employment services and training schemes. This means that the scope does not include new entrants into the labour market, the voluntarily unemployed, the persons laid off who wish to take a break or stay at home for family reasons, and persons who are sick or going on maternity leave and are therefore not capable of work.

The main groups covered are private and public sector employees who are already contributing to the social security system. In principle, the coverage in the Vanuatu and other Pacific Island countries would be the same as the VNPF apart from any self-employed and voluntary members. However, not all of the types of workers who have insecure employment may be covered and this is an issue in many countries aiming to expand coverage as widely as possible. (Vanuatu has already identified the need to include the rural and informal sectors in a social health insurance scheme when established and if a UI scheme is planned in future it would therefore benefit from such steps to extend coverage).

Few developing countries had established the institutional framework of employment services with networks of offices equipped with labour market information and qualified staff and a system of vocational training programmes which would facilitate the introduction of unemployment insurance. This has the smallest number of schemes worldwide of any branch (68), and some developing countries had adopted the strategy of targeting the poorer categories of unemployed and under-employed workers through public works and similar projects for infrastructural development often scheduled for the off-season in rural areas.

Where the economy suffers a downturn leading to extensive lay-offs, unemployment insurance schemes may help to smooth consumption through the payment of unemployment benefits which strengthen the economy by maintaining adequate levels of consumer demand during periods of economic difficulties. This temporary maintenance of spending power may help in delaying, minimising or preventing a downward spiral of further economic decline with the inevitable further result of additional unemployment and consequential reductions in consumer demand.

As regards unemployment insurance the essential points were that:

- the prescribed rate in the Social Security (Minimum Standards) Convention No.102 is 45 per cent of previous earnings, and 50 per cent in the Employment Promotion and Protection Against Unemployment Convention, 1988 No.168 and some of the newer schemes in developing countries paid these or similar amounts for periods of from 13 to 26 weeks in a period of one year

or so and were financed by means of joint employer-employee contributions, usually in the range of from 1.5 to 3 per cent of insurable earnings;

- Unemployment insurance schemes may require only a recent number of paid contributions such as 6 months out of the last 12 months or both this type of condition and an overall requirement that the insured person has paid a minimum of 12 monthly contributions together with his/her employer;
- administration of unemployment insurance is a demanding task because of the need to apply both insurance and labour market conditions requiring close coordination between the social security and employment offices;
- whilst the social security organisation is responsible for the scheme and its finances, the employment service offices have the task of organising job search activities and certifying at regular intervals that claimants meet the conditions of being available for, capable of and actually seeking work in order for benefit payments to be made; and
- in general, the job search requirements had been intensified in a number of countries as a condition for entitlement to cash benefits.

There were therefore important pre-requisites in establishing the unemployment insurance system, and where unemployment insurance schemes are introduced prematurely, such as prior to economic expansion and progress with employment policies the development of properly functioning networks of employment service offices, and vocational training programmes, they function more as unemployment assistance schemes and the issue is whether the resources would be more effectively used in public works and similar projects.

Section 12.4 summarises the experiences of Barbados and the Republic of South Korea as examples of unemployment insurance schemes illustrating different approaches. Barbados with a population of 267,000 introduced unemployment insurance in 1981 and it was noteworthy that the scheme had gradually increased benefit entitlements from the initial 40 per cent payable for up to 13 weeks to 60 per cent for a maximum of 26 weeks in any continuous period of unemployment or for an aggregate of 26 weeks

in the 52 weeks preceding. In other words, the merits of starting cautiously and building-up on the basis of experience had been recognised. The volatile nature of this branch of social security is borne out by the fact the contribution rate had been revised 5 times between 1981 and 1998 in relation to changing demands for benefits. The scheme had adjusted and currently charged a total of 1.5 per cent of earnings which was shared equally by employers and workers.

Another example is provided by the Republic of South Korea which had launched a more elaborate and ambitious Employment Insurance Scheme (EIS) in 1995. The structure includes an Employment Stabilising Programme and a Job Skill Development Programme in addition to the system of cash benefits. The EIS scheme aims to promote employment through subsidies and active labour market policies maintain living standards of job-seekers through cash benefits and provide skills training where needed to increase prospects of re-employment. Employees pay 0.5 per cent of insurable earnings and employers from 0.9 to 1.5 per cent according to their contributions for vocational training. The benefit rate is 50 per cent of insurable earnings and duration is related to factors considered as indicating the likelihood of re-employment. The maximum benefit periods in months are as follows:

Table 12.1 Republic of Korea unemployment insurance scheme – maximum benefits period

	Length of insurance (years)			
	1 - 3	3 - 5	5 - 10	Over 10
Insured under age 30 years	3 months	4 months	5 months	6 months
Aged 30 to 50 years	4 months	5 months	6 months	7 months
Over 50 years & persons with disabilities	5 months	6 months	7 months	8 months

The Korean scheme has been rapidly expanded but even so it is also coordinated with assistance schemes and public works projects to ensure that all types of unemployed persons are protected.

12.2.5 Discussion of Issues

The participants discussed the following issues in group sessions.

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1. What priority should a short-term unemployment insurance scheme have compared with other needs for social security development, such as worker's compensation and health insurance?

Some participants spoke about the need the collection of data on the unemployed and for careful analysis to identify the main characteristics such as reasons for redundancy, duration of unemployment and needs for skills training. One of the advantages noted was the possibility of re-training persons whose job prospects were becoming unfavourable due changes in labour market requirements. In general, some priority was given to UI although it was recognized that this was provisional as consideration still had to be given to social health insurance, pensions and family benefits.

2. Pooling risks in a social insurance fund is a new concept in Vanuatu since workers are used to individual accounts. Would it be acceptable if some persons drew heavily from the unemployment insurance Fund and others never claimed? In other words, is there a strong sense of solidarity amongst insured employees?

It was difficult to establish a common view on this concept precisely because of lack of experience of it amongst the participants but one point was that reasons for unemployment would be important for attitudes in the community towards this type of social security and the beneficiaries of it. Since in numerous countries UI was introduced only after other branches, such as social health insurance, this issue could be resolved prior to the future date when a sound basis may exist for the introduction of this scheme.

3. In Vanuatu, what main preparatory steps would be needed for the introduction of unemployment insurance?

It was clear that comprehensive preparations would be needed in such respects as the establishment of well-organised employment service offices and vocational training programmes which call for significant investment of public funds.

4. Would it be possible for an unemployment insurance scheme to detect claimants who have undeclared earnings whilst drawing

benefit?

The general view was that this could not be prevented where unemployed persons had ready access to informal sector earning opportunities.

5. On benefit entitlement,

- (c) Should the rate remain the same throughout the period of the claim or decrease after 3 months - for example, 50 per cent for months 1 to 3 and 40 per cent for the next 3 months?
- (d) Should claimants be encouraged to find jobs quickly? For example, if he/she is re-employed after 2 months or less, the Fund could pay half month's benefit or a fixed amount as a bonus. Is this a good idea or not?

Discussion on these questions helped in increasing the understanding of the concepts but a number of factors are involved and no definite views were expressed one way or another.

It was felt that the workshop served the purpose of providing initial information and documentation on a subject that will call for further study in future.

There were some comments in favour of introducing unemployment insurance as long overdue and urgently needed, especially by workers in insecure employment, with references to logging as an example of a particularly difficult sector when foreign companies set up enterprises that closed down whenever business conditions changed for the worse. Solidarity was recognized as essential for the working of this type of social security protection. As regards the problem of detecting persons abusing the scheme, some participants stated that local knowledge of each individual's activities and careful checking of reports of new enrolments by employers could be quite effective controls. Some groups referred to a wide range of preparations that would be needed including research into types and duration of unemployment in various sectors and that some public inputs through seminars would contribute to the planning of an appropriate scheme.

Discussion on these questions helped to increase the understanding of the concepts and of the emphasis on re-employment with cash benefits needed to support the process for a limited period

only. It was evident that the workshop served the purpose of providing initial information and documentation on a subject that will call for further study in future.

12.3.6 Concluding Remarks

(i) Unemployment protection

Social protection policies are necessarily complementarily developed with labour and employment policies and this applies particularly strongly to the contingency of unemployment which underlines the importance of close and coordinated planning in this sector and the role of the Department of Labour. Sector 2 of the National Action Plan for Decent Work (NAPDW) envisages a number of initiatives including capacity building in the Department of Labour and development of user-friendly labour market database. These are important steps to ensure sound implementation of future employment policies and strategies. The NAPDW contains a series of plans for developing suitable employment policies and strategies including a pilot scheme for employment creation in the informal sector and project proposals for employment creation in the rural and informal sectors. Another important area for development is vocational training policies and methods.

There is no specific mention of employment services and labour market surveys which can be expected to feature at some stage as essential elements in the strengthening of the framework and information systems for devising and adjusting employment policies as social and economic conditions change in the country.

(ii) Conditions for the introduction of limited UI protection

Unemployment protection can be provided in different ways. One of the main reasons for the relatively low number of unemployment insurance schemes is that the requirements for establishing an effective UI scheme are difficult to meet in the majority of lower-income developing countries and that a more feasible strategy may be to provide employment through labour-intensive public works and similar projects that can be targeted at lower-income groups in urban and rural areas.

The fact that the immediate priorities for social security development in Vanuatu have been identified as the establishment of a social insurance scheme for worker's compensation and the planning of social health insurance allows time for careful consideration of a possible future role for an unemployment insurance scheme. As in other Pacific Island countries the outstanding issue is how to adapt the economy to raise the living standards of the population and improve employment generation. When expansion of the economy and development of the private sector gain more momentum and economic indicators show consistent improvement, this situation may in due course warrant investments in employment services and labour market information, as well as increases in vocational training programmes to counter skills shortages that can slow progress in economic development and employment generation. Such a range of developments could provide a basis for considering the role that a suitable modest UI scheme could play in adapting labour supply to demand and maintaining progress in implementing decent work priorities.

The low number of even short-term UI schemes in developing countries is not surprising considering the requirements for the introduction of UI. For the introduction of a modest UI scheme, essential conditions that when met increase the feasibility of a scheme, if this becomes a future priority in coordinated planning of social security development, include:

- A sound or reasonably sound economic situation generating consistently higher demands for labour and improving affordability, as indicated by improved per capita incomes amongst the insured population;
- Wide support for the investment of public funds in organizing the network of employment centres and training schemes and establishing the contributory UI scheme, especially the essential sense of solidarity amongst the insured employees for a system of pooling risks, in contrast to defined contribution schemes with which they are familiar, since some may expect to draw heavily on the scheme and others may envisage never claiming;
- A well-functioning national network of employment service centres operating with access to suitable vocational training

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courses, and a system of active labour market policies that can be brought into force when necessary; and

- An efficient social security administration with consistently low contribution arrears and the capacities to collaborate with employment centres in the implementation of UI, the most difficult to administer efficiently of all social insurance schemes.

12.4 Main concepts and principles of unemployment insurance

12.4.1 Concepts and structural features

The purpose of this section is to elucidate the main concepts and principles of unemployment insurance from the point of view of Pacific Island developing countries.

There are approximately 68 social security schemes of various types for the contingency of unemployment amongst 175 countries with one or more social security programmes. This is the lowest number of schemes per social insurance branch and contrasts with over 170 countries with old-age protection schemes and about 175 operating employment injury or worker's compensation schemes. This underlines the fact that the unemployment insurance schemes are predominantly in industrialised countries and some transition economies and are only slowly being introduced in middle-income developing countries.

One of the main means of combating unemployment and under-employment in developing countries is through the organisation of public works projects for infrastructural development such as feeder roads and irrigation systems in rural areas. Such strategies have helped to alleviate poverty and hardship amongst low-skilled workers especially on a seasonal basis in rural areas. The introduction of unemployment insurance schemes would target different categories of workers in the formal sector who are able to build up sufficient contribution records to qualify for cash benefits and should have no impact on continuation of the public works projects.

The basic concept in the Social Security (Minimum Standards) Convention (No. 102 of 1952) is of suspension of earnings due to inability to obtain suitable employment in the case of a person who is available for and capable of work. A further requirement that the applicant should be *actually seeking work* is contained in the Employment Promotion and Protection Against Unemployment Convention (No.168 of 1988). The nature of unemployment insurance schemes is underlined by these conditions and the requirement that sufficient numbers of contributions have been paid to qualify for benefits.

Clearly, the target group consists of persons:

- recently in insurable employment and who have paid sufficient contributions to qualify for unemployment insurance;
- who have been retrenched;
- are ready and able to return to work; and
- are actually seeking work.

The scope does not include new entrants into the labour market, the voluntarily unemployed, persons laid off who wish to take a break or stay at home for family reasons, and persons who are sick or going on maternity leave and are therefore not capable of work.

A fully-fledged scheme is part of a proactive system for returning laid-off workers to employment through job matching, training schemes and forms of assistance to workers to become self-sufficient by means of self-employment or other means. Active labour market measures may be employed in the well-established schemes found in industrialised countries, such as, for example:

- Support for further vocational training;
- Job creation measures to provide temporary jobs for long term unemployed persons;
- Wage subsidies using resources otherwise payable as benefit in order to provide temporary employment;
- Integration subsidies, the purpose of which is to obtain permanent employment for disadvantaged workers by compensating employers for lower performance;
- Recruitment subsidies for new businesses to employ a specific number of unemployed persons;

- Subsidies for recruiting long-term unemployed persons; and
- Start-up grants for persons entitled to benefit but wishing to start businesses may be entitled to a lump sum of 6 months benefit.

Unemployment insurance is widely considered to be the most difficult to administer of all social insurance schemes because both insurance and labour market conditions have to be applied against the background that informal sectors of employment provide scope for some claimants to obtain earnings without declaring them when drawing unemployment benefits.

The income protection afforded in the form of unemployment benefit to qualified workers allows them some time to search for similar jobs, and, if necessary, to upgrade skills through training courses, in order to maintain their incomes and membership of social insurance schemes, instead of opting for the first job available in the informal sector. However, a careful balance has to be struck between providing adequate subsistence levels of benefit and avoiding reductions in incentives to return to work as soon as suitable jobs are available. The rate stipulated in Convention No.102 is 45 per cent of average earnings for a man with a wife and 2 children, whilst Convention No. 168 prescribes 50 per cent for the beneficiary alone.

Until recent years few developing countries were interested in unemployment insurance, which was largely due to misunderstandings about its role and the possibility of establishing limited low cost schemes. However, the Asian regional financial crisis in 1997 brought about a general realisation amongst countries in the region that unemployment insurance schemes could have been functioning in a few of the affected countries. Clearly, participation in labour markets exposes all types of workers to the risk of unemployment; the more so with the impacts of globalisation, and in many countries the existing mechanisms for absorbing retrenched workers and the social protection mechanisms, such as severance pay, are inadequate.

In South and East Asia, excluding the fully industrialised countries, only the People's Republic of China, Mongolia, the Republic of South Korea and Thailand have introduced unemployment insurance schemes. In the English-speaking Caribbean, where countries

have similar population levels to Pacific Island countries, Barbados introduced an unemployment insurance scheme in 1981 which has been adapted to changing economic conditions in that country. This Chapter provides information on the structure and objectives of this type of scheme, and an overview of the experiences of the unemployment insurance scheme in Barbados to illustrate the structure of a typical unemployment insurance scheme in a developing country. Appendix 11C to Chapter 11 on Barbados also contains information on the Severance Payments Scheme in that country.

12.4.2 Objectives of unemployment insurance schemes

While almost all industrialised countries have some form of unemployment insurance that provides vocational guidance, access to job vacancies, skills training and cash benefits on a short or long-term basis, schemes in developing countries tend to provide partial income replacement to eligible covered workers for short periods following involuntary unemployment. Like other contributory social security benefits, unemployment benefits are paid as a matter of right with no demonstration of need required. There are also several secondary benefits to the general economy of having an unemployment benefits scheme in place.

Unemployment insurance schemes have several objectives. The primary objectives involve assisting individual workers during periods of involuntary unemployment while the secondary objectives stress the promotion of economic efficiency and stability.

Specific objectives of unemployment insurance schemes are:

- Provide cash payments during involuntary unemployment to qualified persons;
- Maintain to a substantial degree the unemployed worker's standard of living;
- Provide time to find employment consistent with the workers' skills and experience; and
- Provide extensive employment services to assist unemployed workers find suitable jobs.

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Other objectives are:

- Smoothing consumption through unemployment benefits strengthens the economy by maintaining adequate levels of consumer demand during periods of economic difficulties;
- Promote better utilisation of labour by encouraging unemployed workers to find appropriate jobs and, where necessary, helping them to improve their job skills; and
- Help employers maintain a skilled work force as skilled workers are not forced to seek other jobs, and thus are free to return when they are called back.

The introduction of an unemployment insurance scheme may have an effect on aggregate disposable income, consumption and savings. The payment of benefits in areas of high unemployment could help to stabilise consumer demand, and prevent or limit further economic decline. That was the view when the Asian financial crisis occurred causing widespread unemployment, as the effects were worsened by the lack of schemes and the inability of bankrupt enterprises to meet obligations for severance pay. Benefit entitlement might deter some workers from seeking rapid reintegration into the labour market as it is intended to provide a breathing space to find suitable jobs. But given a rather short duration and limited level of benefits, the effect on the overall cost of the scheme and to the economy as a whole should be negligible. There are only marginal effects to be expected on average labour cost and on consumer price levels.

On the other hand, there are economic costs of not having any unemployment benefit system. They result from:

- passive or active resistance by workers to structural change, based on the fear that some may lose their jobs;
- unwillingness of the workforce to cooperate in the introduction of new technology, for similar reasons;
- political tensions and social unrest when large numbers of workers have to be laid off;
- the tendency to claim other social security benefits (invalidity benefits, cash sickness

benefits) when the contingency of unemployment is not covered; and

- the temptation to establish other more costly and less effective schemes to provide protection in the event of job loss (employment assistance programs).

Relatively high levels of unemployment should not necessarily prevent the introduction of a carefully-designed unemployment insurance scheme where the administration is confident it can organise and operate an effective scheme and prevent abuse. An unemployment insurance scheme with wide coverage has clear economic advantages in stabilizing the economy on a short-term basis during periods of recession and in promoting a better utilization of labour. It is possible to design unemployment insurance schemes, at least initially, to provide limited income support and minimise the level of expenditures with the intention of moving towards more generous provisions as the experience develops and the capacities of the administration improve.

12.5 Some main design considerations

As a short-term benefit the following guidelines may apply to the scheme design.

12.5.1 Coverage

It can be expected that policy decisions to introduce unemployment insurance follow the successful operation of a social insurance scheme for other branches such as old-age, employment injury or social health insurance since these have had a higher priority in many countries. When planning unemployment insurance therefore the process would be facilitated by the fact that coverage of employees would be identical and the scheme could utilise the same contribution collection, recording and enforcement systems with the minimum costs. However, any self-employed and voluntary contributors would be ineligible since the contingency of involuntary unemployment does not apply to these groups. The main groups covered are private sector and public corporation employees who are already contributing to the social security system. The civil service usually has its own social security system. In principle, the coverage in Pacific Island countries would be the same as the NPF apart from the self-employed and voluntary members.

12.5.2 **Contribution conditions**

As a short-term benefit, unemployment insurance requires a period of recent contributions to prove entitlement as an employed person. Schemes may require only a recent number of paid contributions such as 6 months out of the last 12 months or both this type of condition and an overall requirement that the insured person has paid a minimum of 12 monthly contributions together with his/her employer. This is the means by which unemployment insurance is targeted at regular workers who are subject to frictional unemployment.

12.5.3 **Benefit level**

Level

The decision of the percentage of average earnings to be paid constitutes a compromise between providing an adequate level for the maintenance of the insured persons and their dependants and ensuring that there are sufficient incentives for beneficiaries to return to paid employment rather than remain drawing benefits. This is the rationale for the rates of 45 per cent for a man and his wife and 2 children and 50 per cent for the beneficiary alone prescribed in the ILO Conventions No.102 and 168 respectively. The rate of 50 per cent has been adopted in a number of schemes as an appropriate balance between the two requirements outlined above.

Two other issues should be considered:

- Should benefit remain at the same percentage throughout the duration or should it be lowered after an initial period to encourage claimants to return to work as soon as possible? If this is adopted the effects should be evaluated in order to assess whether average benefit duration is reduced and whether any claimants suffered financial hardship as a result of the reduced benefit level;
- With a 50 per cent rate low wage earners are likely to experience coping difficulties and a minimum benefit rate should be considered; this should be linked to average earnings of social security contributors so that it can be increased from time to time. This feature would be adopted where the scheme wished to apply a 50 per cent rate generally but recognised that the lower paid may need a reasonable period of time to find “decent work” and possibly obtain a

better paying job. However, this has to be worked out very carefully as another objective is to avoid the “welfare trap” where the unemployed workers are better off receiving benefits than they would be taking low-paid jobs when non-payment of contributions and the reduction in expenses for going to work are taken into account.

Duration

In accordance with the concept of limited support the duration of benefit may be in the range from 3 to 6 months in a period of one year. A period of up to 7 waiting days can be included before benefit is paid on the grounds that hardship should not be caused by a few days without income, but schemes may decide to pay such days later if the period of benefit exceeds 14 days or so. This means that a worker could be re-employed in a day or two and that such short duration claims can be avoided on the grounds that there is no hardship involved. On the other hand if the unemployed person remained on the register for 20 days he/she would be paid for the full period. Where periods of benefit are separated by gaps exceeding 13 weeks that may be counted as separate, otherwise they count as one period of benefit for the application of the waiting days rules.

However, issues arise regarding severance pay as employers may contend that there is duplication with unemployment insurance and the two benefits should be coordinated. This may be resisted on the grounds that they are different in the sense that severance pay is a reward or payment for long service and that retirees and employees may leave receive severance pay when leaving a company without necessarily claiming unemployment insurance and that this benefit should continue unabated when unemployment insurance is introduced.

As regards relevant ILO standards, Convention No.168 of 1988 on Employment Promotion and Protection against Unemployment provides for the coordination of severance pay and unemployment insurance as follows:

Where protected persons have received directly from their employer or from any other source under national laws and regulations or collective agreements, severance pay, the principal purpose of which is to contribute towards compensating them for loss of earnings suffered in the event of full unemployment:

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- *the unemployment benefit to which the persons concerned would be entitled may be suspended for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered; or*
- *the severance pay may be reduced by an amount corresponding to the value converted into a lump sum of the unemployment benefit to which the persons concerned are entitled for a period corresponding to that during which the severance pay compensates for the loss of earnings suffered, as each Member may decide.*

This would mean that an employee who receives 3 months severance pay could have the following adjustments in unemployment benefit:

- a delay of 3 months in entitlement to benefit or a reduction of 3 months in the duration, and
- as above but on a partial basis such as a delay or reduction of 2 months in respect of the 3 months severance pay.

Very little information is available or published on the adjustments made, if any, in some countries in the entitlements under these two schemes. It appears that frequently severance pay and unemployment insurance are provided as separate benefits. However, in the Republic of South Korea an adjustment is made to the unemployment benefit in respect of large severance payments. Entitlement of 100 million won or more results in the postponement of unemployment benefits for 3 months. If a country decides to reduce severance pay entitlements of unemployment insurance claimants this change should not affect acquired rights or rights in the course of acquisition and therefore would only gradually have any financial effects.

12.5.4 Financing

The costing of an unemployment insurance scheme depends on many variables some of which are relatively stable such as labour supply whilst others are more volatile and cyclical in nature and some may be affected by government actions or policy fluctuations in the economic field. Analysis of unemployment insurance expenditures in various countries demonstrates

the more volatile nature of this branch than other short-term benefits such as maternity or sickness benefits. Barbados has adjusted the unemployment insurance contribution rates at various times in relation to higher and lower demand and evidently financing this branch requires the maintenance of adequate contingency reserves and careful monitoring of expenditures in order to adjust as necessary in order to maintain the solvency of the unemployment insurance fund. In general, this type of unemployment insurance scheme may require contributions of between 1 and 3 per cent of insurable earnings (however, Thailand introduced its unemployment insurance scheme in January 2004 with a contribution rate of 1.25 per cent).

Whilst ILO Conventions do not stipulate the extent to which social insurance contributions are shared between employers and employees, it is provided that the cost of benefits and administration is to be borne collectively, in such a way that hardship to persons of small means is avoided and that employees' contributions should not exceed 50 per cent of the total after the exclusion of family benefit and, normally, employment injury benefit. There is no uniform pattern as there are examples of equal sharing of the unemployment insurance contributions and of employers paying a larger share.

12.6 Organisation and administration of unemployment insurance schemes

Administration of unemployment insurance is described as challenging to administer, in view of the need to prevent the simultaneous receipt of unemployment benefit and earnings from clandestine work, and also to coordinate the social security and employment service functions. Countries considering unemployment insurance pay close attention to their capacities to organise and administer schemes that require close working arrangements between the social insurance institution and a comprehensive network of employment offices with information systems on job vacancies throughout the country.

Benefit claims must be carefully checked, and efforts of jobseekers to find employment closely monitored, necessitating a well staffed and well organised professional employment service. The main administrative tasks involved in running an unemployment insurance scheme are:

- Registering workers and employers;
- Collecting contributions;;
- Recording contributions and insured earnings;
- Registering benefit claimants as unemployed and receiving their benefit claims;
- Checking that claimants are involuntarily unemployed, available for work and actually seeking employment; monitoring that this continues to be the case as long as benefit is payable; offering suitable jobs and training and applying sanctions if necessary where claimants refuse suitable jobs or training opportunities; and
- Processing benefit claims, checking fulfilment of contribution conditions, calculating and paying benefit.

The first three tasks are unlikely to involve much additional work for a social security institution which is already administering other branches of social insurance, provided that the coverage of the unemployment insurance scheme and the definition of insurable earnings are identical to that of the existing schemes, as there are already efficient contribution collections and claims processing systems. The introduction of unemployment insurance will lead to an increase in the rates of contribution, but will not mean any change in the number of contribution payments. Revenue destined for the unemployment insurance scheme has to be accounted for separately, but this is a straightforward matter of allocating the relevant percentages of total contribution revenue to the accounts for the various schemes.

The social security institution is also in the position to check if the claimant for unemployment benefits is also claiming sickness or maternity benefits for the same periods. The verification of unemployment and continued eligibility to a benefit, however, calls for combined efforts of the social security institution and the separate independent employment services. A key decision is where claims are to be lodged - at the Social Security office or the Employment Office? Where possible registration for work should be combined with making a claim as the emphasis is on job-seeking and a one-stop system is helpful to the unemployed persons.

While social security inspectors may play a limited role, a separate employment service should be responsible for verifying the eligibility requirements related to the capacity and availability for work, as well as assist in the search for suitable re-employment. These include checking that unemployment was in fact involuntary, and that unemployment continues with the claimant being available for work and seeking employment, as well as willing to accept what the employment service considers is a suitable job. Together with the typical social security functions, these make the administration of an unemployment benefit more complex and difficult than the other regular tasks performed for other social security benefits.

Registering benefit claimants as unemployed involves extra work. In all countries, it is found that unemployed workers who are not able to obtain cash benefits often do not take the trouble to register as unemployed. Non-registration tends to be highest in countries where the employment service is not thought to provide very effective assistance to jobseekers in finding new employment, and where employment service offices are not easily accessible.

Receiving benefit claims will also involve extra work, especially as most unemployed workers will be claiming benefits for the first time. Even with well-designed claim forms, many claimants are likely to require some staff assistance in completing them.

Checking that claimants are involuntarily unemployed, available for work and actually seeking employment is undoubtedly the most complex and demanding aspect of administering an unemployment insurance scheme. A certain number of workers may deliberately set out to defraud the scheme by claiming benefits and at the same time receiving earnings from work. Some others may, without any dishonest intent, simply fail to make much effort to find employment. Even if these form a small percentage of cases, they are not easily monitored so long as they are receiving benefits. When interviewing claimants, staff will inquire how they lost their job, try to find other suitable jobs for them, and inquire about the steps the workers themselves have taken and are taking to find other employment. Another closely related task has to be performed by social security inspectors, whose duties must include surprise visits to workplaces to check that all workers are

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duly insured and that none is claiming unemployment benefit at the same time as working.

The concept of short-term unemployment leading to speedy re-employment has been strengthened in many countries in recent years. Some of the main characteristics of this approach are:

- Use of the term Job Search or similar phrases;
- Conclusion of formal agreements between the claimants and the employment service on how the job search will be conducted;
- Appointment of personal advisors to each claimant with whom the Job Search is organised and assessed at regular intervals;
- Use of incentives such as Training Vouchers and Training Courses when applicable; and
- Use of sanctions in the form of benefit suspensions against claimants who refuse suitable jobs or decline suitable training courses.

Suitable employment is defined in Convention No. 168 to take into account age of the worker, length of service in last occupation, length of unemployment, the labour market situation, personal and family situation and whether a new job is vacant due to an on-going labour dispute. The concept of suitable work and suitable training is central to this aspect of the administration of unemployment insurance and needs to be backed up by Labour Courts or similar bodies as a number of disputes arise between claimants and the employment service and should be resolved by independent bodies.

Processing benefit claims will require ready access to the individual contribution records of the workers concerned and information exchanges between the social security institution and the employment services. Information technology allows this work to be performed quickly and efficiently, which is both in the interests of the unemployed worker and of the social security institution. However, this presupposes that the database containing the individual records includes all the information required to check that the qualifying period has been completed and to calculate the benefit that is due:

- Information may be required for unemployment benefit that was not previously required for administering other benefits provided by the social security scheme, so any such missing data would have to be collected and entered for all insured workers; and
- Checking the fulfilment of contribution conditions and calculating benefits require data on recent earnings and unemployment insurance contributions paid. In view of the time lags before contributions reach the social security office, the contribution and average earnings test periods should end at least 2 months before the month in which unemployment commenced.

12.6.1 Co-ordination between the social security institution and the employment services

Since some tasks are clearly the responsibility of the social security institution, and others can be performed only by the employment service, there is an obvious need for close co-ordination between these two agencies. Ideally, before the employment service embarks on the time-consuming task of checking that claimants are involuntarily unemployed, available for work and actually seeking employment, it is advisable to check whether or not the claimant in fact fulfils the contribution conditions for receiving unemployment benefit. This would be feasible only if individual staff members in the employment service could consult the social security institution's database or the social security body gives a decision in principle on whether or not the insurance conditions are satisfied.

12.6.2 Other functions

A most important additional role for the agency certifying that claimants are eligible to an unemployment benefit is the matching of vacant positions with suitably skilled workers. This service could assist employers in finding the persons with the right skills and in reducing the time for which employees with special skills may be without work. While the principal focus of an unemployment benefits scheme is to pay benefits, the scheme may also be used as part of an overall policy directed at promoting employment or facilitating training or retraining.

Close coordination between the employment services, the authority responsible for skills development training and the social security institution will be required to ensure that arrangements for training and re-training work effectively.

12.6.3 Concluding remarks.

The number of unemployment insurance schemes is gradually expanding world-wide as more countries recognise the constructive role unemployment insurance schemes can play in support of employment policies if well-designed, adapted to labour market requirements, and effectively implemented. However, there are different types of schemes varying in their scope and objectives. The type of unemployment insurance scheme likely to interest Pacific Island countries that are considering the needs of the unemployed in the process of establishing priorities for future action, is designed for frictional unemployment and a limited role of providing short-term financial support whilst, with the aid of the employment services, the unemployed seek decent work. The costs mainly depend on the benefit structure and may be in the range of 1.5 to 3 per cent of insurable earnings with some sharing between employers and employees, as agreed through social dialogue. The benefit rates are set at rates considered as adequate for the short-term whilst providing incentives for resumption of employment. In practice, benefit is usually around 50 per cent of recent average earnings which is payable for up to 6 months or so in a period of 12 months. This approach could establish the scheme and allow consideration at later stages according to experience of enhancement of the benefits and or their duration and expansion of coverage. However, because of the volatile nature of unemployment and the difficulty of predicting demands for benefits, it is advisable to have adequate financial reserves and legislation allowing changes by regulations in key provisions on contribution and benefit rates and duration of entitlement as a minimum.

Unemployment insurance schemes rely on the efficiency of the employment services, as the main objective is to provide time for the unemployed person to seek suitable work rather than be forced to take the first opening in the informal sector. The existence of unemployment insurance schemes requiring claimants to register for employment provides both an opportunity

and challenge to the employment services provided that sufficient resources can be provided for upgrading of their capacities. In addition, the system requires an appropriate range of training courses that are geared to labour market requirements and adapted as these change so that they may be provided to increase the chances of re-employment. The unemployment insurance fund would pay for each claimant sent on such courses but would have no responsibility for the financing of such training schemes. In some countries training levies are paid by enterprises for this purpose.

It is well understood that social protection policies must be complementarily developed with labour and employment policies and that this applies with particular force to the contingency of unemployment. The point to stress strongly is that unemployment insurance should be part of a system geared up to returning the unemployed persons to suitable employment as soon as possible. It is also clear that unemployment insurance alone cannot meet the needs of all of the unemployed and that complementary social protection programmes should be in force and coordinated with an unemployment insurance scheme. The unemployment insurance scheme provides earnings-related benefits, and usually continued entitlement to health insurance, where a social health insurance scheme is in force, for limited periods during which job search, vocational guidance and, if necessary, re-training is organised by employment service centres. Therefore, unemployment insurance should be introduced only when essential conditions are met, including:

- A sound or reasonably sound economic situation facilitating labour absorption and affordability, as indicated by improved per capita incomes amongst the insured population;
- Wide support for the investment of public funds in organizing the network of employment centres and training schemes, and establishing the contributory unemployment insurance scheme, especially the essential sense of solidarity amongst the insured employees for a system of pooling risks, in contrast to defined contribution schemes with which they are familiar, since some may expect to draw heavily on the scheme and others may envisage never claiming;

Feasibility Studies

- A well-functioning national network of employment service centres operating with access to suitable vocational training courses, and a system of active labour market policies that can be brought into force when necessary; and

An efficient social insurance administration with consistently low contribution arrears and the capacities to collaborate with employment centres in the implementation of unemployment insurance.

Countries considering suitable strategies to assist the unemployed may take note of the following statement contained in the conclusions concerning social security adopted at the International Labour Conference in 2001:

For persons of working age, the best way to provide a secure income is through decent work. The provision of cash benefits to the unemployed should therefore be closely coordinated with training and re-training and other assistance they may require in order to find employment. Unemployment benefits should be designed so that they do not create dependency or barriers to employment. Measures to make work more

financially attractive than being in receipt of social security have been found effective. However, benefits must be adequate. Where it is not deemed feasible to establish a system of unemployment benefits, efforts should be made to provide employment in labour-intensive public works and other projects as is successfully done in a number of developing countries

It will be evident that where unemployment insurance is introduced prematurely, before the essential pre-conditions are met, the scheme will function more as an unemployment assistance scheme, providing cash benefits with little or no prospects of re-employment, but through the elaborate structure of a contributory social insurance scheme. Possibly a similar or greater impact could be achieved through other measures appropriate to the basic social protection tier, such as targeted social assistance and public works projects. An advantage of these types of programmes over unemployment insurance, which takes time to build-up benefit rights, is that they can be targeted and organised relatively quickly, provided resources are available and some preliminary planning has been conducted.

12.7 An Unemployment Insurance Benefit Scheme For Vanuatu

12.7.1 Summary

This section looks at options for introducing an Unemployment Benefit Scheme into Vanuatu.

A number of options for providing such a benefit are examined. The conclusions are that the most feasible option is a short term unemployment insurance benefit is for *workers involved in formal employment*. This will deal with a large part of the problem of the initial impact of job loss in Vanuatu, and will be a significant improvement in social protection for the groups covered. However, other policies will also be needed to deal with unemployment and under-employment affecting those who are not part of formal employment in the labour force.

A short term unemployment insurance benefit would have the following proposed characteristics:

- Coverage would be workers employed in the formal sector, essentially those now required to contribute to the Vanuatu National Provident Fund (VNPF);
- Funding would come from small extra levies on employers and/or employees contributing to the SNPF;
- Eligibility would begin once an employee had been a contributing member for a specified period, suggested as one year;
- The benefit duration would be time limited;
- Benefits would be paid as a specified percentage of the covered wage of the employee who experienced involuntary loss of employment; and
- The system would most probably be administered by a new division of the Vanuatu National Provident Fund.

In terms of process to set up an unemployment insurance benefit, it is essential that extensive consultations be undertaken with government, employers and employees to explain the options, and to determine:

- The priority of unemployment insurance in relation to other social security priorities in the period ahead;

- The features contributors are prepared to pay for by extra contributions; and
- Whether the new coverage could also extend to include other options such as a period of paid maternity leave.

12.7.2 Introduction

Vanuatu like many other developing countries has an unemployment problem. At the time of the last labour market survey in 2001, Vanuatu had an urban unemployment rate of 6.6 per cent. Rural unemployment is more difficult to define and measure. Many would-be job seekers in the rural areas are also engaged in semi-subsistence fishing and farming, and in informal economy activities designed to provide some cash income, but would prefer regular cash employment. However, with the current state of the employment market in Vanuatu, less than half of the annual crop of school and tertiary study leavers can expect to secure wage and salary employment in the formal economy.

Further, while the tourist industry has been growing, other industries are going through a period of instability, and may require rationalisation. All these factors suggest that instability in employment including periods of unemployment may affect many in formal employment in Vanuatu over the next few years.

Total formal or paid employment recorded in the labour market survey was estimated at around 14,272 persons, about 22 per cent of the economically active labour force of about 65,581⁷⁹. It should be noted that total economically active members of the workforce includes the subsistence economy workers (informal). The discrepancy between the 65,581 in the labour derived from the statistics and the table 8 below is not explained. Around 51,309 were employed in unpaid family work activities, while 49 per cent were not economically active or in informal employment. This employment pattern creates problems in setting up a sustainable unemployment benefit system in

⁷⁹ Based on the data provided by the statistician in SPC PRISM by adding the people employed in the public sector (9,797), private sector (4,475) i.e. the formal economy) and the subsistence sector (51,309).

Vanuatu. Options which would be feasible in an economy with most of the labour force in formal sector employment are not really feasible in Vanuatu at present. Of the feasible unemployment benefit options, the one which would seem to best suit the employment pattern of the Vanuatu economy and its existing institutional structure would seem to be an unemployment insurance benefit for workers in formal employment. For other unemployed or

underemployed groups some other options would seem to be more suitable. These other options are also commented on briefly in this report.

Vanuatu has a well established and active National Provident Fund. This would seem to be well placed to add the administration of an unemployment insurance benefit to its existing functions.

Table 12.2 Employment by Occupation in Vanuatu

Employment by Occupation and age group, 15 - 64 , 1999											
Classification of Occupation Summary	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	Total
Armed Forces	1	10	35	40	46	28	5	1	1	1	168
Clerks	53	301	380	345	277	181	104	46	18	8	1,713
Craft and related workers	237	576	613	581	485	365	299	209	120	48	3,533
Elementary Occupations	443	556	568	527	480	318	260	137	109	33	3,431
Legislators, Senior Officials and Managers	8	18	81	114	138	144	112	96	52	34	797
Plant and machine operators and assemblers	51	207	281	287	310	260	208	102	58	18	1,782
Professionals	4	92	177	159	137	84	76	37	16	13	795
Service Workers and shop and market sales workers	301	752	769	681	531	350	258	145	103	55	3,945
Skilled agricultural and fisheries workers	8,422	8,724	7,950	6,762	5,813	4,560	4,161	3,424	2,888	2,125	54,829
Technicians and associate professionals	137	568	678	630	544	443	263	201	95	53	3,612
Not stated	35	69	84	61	79	55	58	34	19	11	505
Total Employment	9,692	11,873	11,616	10,187	8,840	6,788	5,804	4,432	3,479	2,399	75,110

Source Labour market Survey 2000 – SPC PRISM

12.7.3 Options for support of the unemployed

A number of different options have been considered for dealing with the financial problems faced by the unemployed. Those considered in this study included:

- A Universal Unemployment Benefit;
- Employer Redundancy Payments;
- Employer Redundancy Insurance;
- Individual Unemployment Savings accounts; and
- Unemployment Insurance.

(i) A universal unemployment benefit

One option assessed is a universal unemployment benefit funded by taxes paid to

all job seekers unable to find regular paid employment. This is the system which operates in New Zealand and Australia.

However, such a system is unsuitable for current Vanuatu conditions because of the high proportion of the workforce involved in the informal economy, many of whom would prefer to have regular paid employment in the formal employment sector. A universal unemployment benefit could trigger benefit claims by many thousands of these people. The fiscal cost would be extremely high, and the *not in employment* conditions of such unemployment benefits would also discourage activity in the informal economy, including traditional farming and fishing.

Accordingly, this option is not considered feasible at this stage for Vanuatu.

(ii) *Employer redundancy payments*

A third option is to make individual employers responsible for lump sum redundancy payments when workers are laid off from work. This approach has a number of merits and is a significant advance on the status quo. However, sole reliance on redundancy payouts also involves a number of weaknesses, including:

- The Pacific experience is that lump sums get spent very quickly. Periodic benefit payments last longer;
- The amount of redundancy paid is usually related to length of employment. This is not necessarily related to the time a worker is unemployed before finding another job;
- When businesses collapse or go bankrupt, there is no money to pay redundancy, and the discharged workers usually receive little or no redundancy payments. This was a major problem in Asian countries and particularly in Indonesia following the 1997-98 economic crisis.

(iii) *Employer redundancy insurance*

A further option is to have compulsory redundancy insurance by employers. Employers would pre-pay premiums so that the insurance company could pay out once redundancy occurred. It may be noted that in this option the insurance companies would probably place differential premiums on higher risk industries.

Redundancy insurance is an improvement over straight employer liability, since workers are more likely to get paid, but it retains the other two sets of problems noted above. Also, because of uncertainties about costs and payout rates, individual insurance companies would probably quite reasonably ask for higher average premiums than would be needed in a national unemployment insurance scheme, and least in the early years.

(iv) *individual employee unemployment savings accounts*

A further option is to require all employees and employers to pay into a compulsory savings scheme account in the name of the employee which could be accessed when unemployed. The balances not accessed at the time an employee retires could be added to retirement benefits.

This scheme would operate as an increase in VNPF premiums, but the extra premiums deposited into a separate individual account until retirement.

A problem with this approach is that in order to build up large enough balances in each individual account to cover individual unemployment risk, very high contribution rates would be needed. The lack of *Risk Pooling* would mean that such a scheme would skim off a much larger percentage of wages or payroll than an unemployment insurance benefit.

Another problem with individual accounts of this sort is that there would then be pressure to access the money for many other sorts of contingencies. In turn this would tend to undermine the unemployment protection aspects of the scheme. This is already a problem with VNPF Retirement Benefit Accounts.

(v) *Unemployment insurance benefit*

The system which seems best suited to Vanuatu conditions is a short term unemployment insurance benefit for workers in formal employment. It also seems logical that the system should be administered by the VNPF. The reasons for these conclusions include the following:

- Workers in formal employment are the most immediately affected by job loss, and the fact of it occurring can be readily established. For informal economy self employed, the real employment and income situation is harder to establish;
- Putting contributions into a pooled central unemployment benefit fund shields the money from the individual pressures to access it for other purposes;
- The VNPF already exists, and has contributory arrangements in place for the group who would be covered by this benefit. It also knows what their declared employment income is. Hence, additional administrative costs could be kept relatively low. The main extra requirement would be to set up a periodic payments system for this group;
- A logical contributory base exists to fund the scheme in the form of identified wages and payrolls. However, there would still need to be a decision about how any

premium cost was split between employers and employees;

- The VNPF collects regular data on contributors, and has a high coverage rate of the formal employment sector. It usually knows when someone gets a new job in the formal employment sector. Hence, it already has much of the apparatus in place to police an unemployment benefit system, at least for those remaining in formal employment.

Reasons for proposing that the period of benefit payment system be short term only include the following:

- The need to keep premium costs down to an affordable level;
- Problems of knowing what people are earning if they move into the informal economy and do not have earnings declared to VNPF; and
- The need to retain incentives to seek work.

As noted earlier, for informal economy job seekers and those who have never worked in paid employment, other options seem more suited to their needs.

(vi) *Interface between redundancy and unemployment benefits*

If redundancy payments are in operation when unemployment insurance benefits are introduced, thought will need to be given to the interface between the two systems. Options include:

- Ignoring redundancy entitlements for the purpose of unemployment insurance benefits;
- Offsetting all or part of the redundancy payment against benefit entitlement, thus delaying the start date of payment of unemployment benefit; and
- Reducing redundancy payments by part or all of unemployment benefit entitlements, and factoring this offset into the sharing of premium contributions to unemployment insurance between employers and employees.

12.7.4 *What would short term unemployment insurance cost?*

The cost of unemployment insurance benefits expressed as a percentage of covered wages (the basis for VNPF contributions) depends on a number of factors.

- The unemployment rate for insured workers;
- The average duration of unemployment benefit payments;
- The ratio of unemployment benefits to covered wages; and
- Administrative costs.

A number of calculations have been undertaken to show the possible range of premiums required to support an unemployment insurance scheme. At this stage the figures are *indicative only*, based on estimates and have not been subjected to actuarial assessment. Fund experience would eventually build up actual data.

(i) *Unemployment Rates*

Unemployment rates go up and down over time, so the rates assumed for an unemployment benefit scheme need to be set at the medium or longer term average. The 2000 labour market survey showed an unemployment rate of 6.6 per cent in the actively employed urban labour force. However the labour market surveys do not indicate an annualised staff turnover rate in the formal employment sector. The degree to which the stated unemployment figures reflect current reality is not known and is impacted on the way people move between formal and informal employment and short and long term migration. However, it is expected that the average unemployment rate of workers in formal employment qualifying for the benefit would be substantially lower than this for the following reasons;

- The 6.6 per cent unemployment rate and annualised turnover includes people who were previously in the informal economy, school leavers, and other new job seekers, and also by external migration. These groups would not be benefit eligible because they were not previously employed in the formal economy and had

not paid the required unemployment insurance contributions;

- It is proposed as part of the scheme design that a person would have to have been employed and contributing to the unemployment benefit fund for around one year before benefit eligibility was triggered; and
- The long term unemployed would eventually drop out of the eligible group once their period of benefit eligibility expired.

Calculations have been done on three annual alternative *insured unemployment rates* of 7, 5, and 3 per cent. In terms of Vanuatu's current economy, these may be seen as high, medium and low rates for formal employment sector workers. However, rates could go higher in a major economic crisis, and could fall to low single figures in prosperous times if the Vanuatu economy experienced a period of sustained high growth.

(ii) *Duration of Payment*

The average duration of benefit payments depends both on how long people tend to be unemployed, and the time limit set for receiving the benefit. For example, if the average unemployment duration is 6 months, then an 8 per cent average annual unemployment rate for insured workers means that 16 per cent of the insured labour force is likely to be unemployed at some stage during the year. If the average unemployment duration is 4 months, then the proportion unemployed at any stage during the year with an 8 per cent average unemployment rate would be 24 per cent.

For the purpose of calculations, an average duration of 6 months is assumed. Actual experience will demonstrate what the true figure is.

For benefit duration limits, options of 3, 6, and 9 months are examined. These are expressed as 13, 26 and 39 weeks. These are assumed to be equivalent to the following actual average durations on benefit, since many would exit benefit before the time limit cut in. Again, actual figures would emerge from fund experience. However, analysis of VNFP account turnover figures should shed more light on this issue.

Table 12.3 *Average benefit duration assumptions*

Time Limit	Average Actual Duration Assumed
13 weeks	9 weeks
26 weeks	13 weeks
39 weeks	16 weeks

(iii) *Ratio of unemployment benefits to wages*

Three options are costed. In each case the *covered wages* are the average wages for the previous 12 months declared to VNPF for unemployment insurance purposes.

- Benefits 70 per cent of wages;
- Benefits 60 per cent of wages; and
- Benefits 50 per cent of wages.

For simplicity the ratios are simply taken as percentages of wages. In practice some schemes will have caps on the highest level of payments, and may also have minimum benefits for full time workers.

(iv) *Cost figures*

Using these figures, and excluding for the present administrative costs, the levies on wages required to pay benefits on these bases would be as follows. The figures in each of the three columns are the percentage of wages required to be paid in premiums, excluding administrative costs.

Table 12.4 *Case 1 - Cost of benefits at 70 per cent of wages*

Time Limit on Benefit	Unemployment Rate of Insured Workers (% of Insured Workers)		
	7%	5%	3%
	Contributions required (% of Salary)		
13 weeks	1.69	1.21	0.73
26 weeks	2.45	1.75	1.05
39 weeks	3.02	2.16	1.30

Table 12.5 *Case 2 - Cost of benefits at 60 per cent of wages*

Time Limit on Benefit	Unemployment Rate of Insured Workers (% of Insured Workers)		
	7%	5%	3%
	Contributions required (% of Salary)		
13 weeks	1.46	1.04	0.63
26 weeks	2.10	1.50	0.90
39 weeks	2.59	1.85	1.10

Table 12.6 Case 3 - Cost of benefits at 50 per cent of wages

Time Limit on Benefit	Unemployment Rate of Insured Workers (% of Insured Workers)		
	7%	5%	3%
	Contributions required (% of Salary)		
13 weeks	1.21	0.87	0.52
26 weeks	1.75	1.25	0.75
39 weeks	2.16	1.54	0.93

(v) Administrative Costs

If the National Provident Fund administers the unemployment insurance benefit fund, then many of the potential costs will already be covered by the existing deduction procedures from employers and employees. This includes premium collection systems and fund investment activities. The main difference would be that the extra premium charged would be credited to the central unemployment benefit fund rather than the VNPF member's own account.

It would be possible to use some other body than the VNPF to run an unemployment insurance benefit system. However, this would involve higher administrative costs because of the need to duplicate facilities. It would also mean employers having to deal with two separate organisations for payroll deductions, however it is done this way in some countries.

However, even with VNPF running unemployment insurance, there will still be some extra costs of running the system. This would include calculating benefit entitlements for those who were made redundant, setting up an application and periodic payment system, and policing the system for fraud. The periodic payment system would need to be larger than the present system used for VNPF pensions, as there would be more cases to handle, and a much higher turnover rate per case.

The fourth quarterly report (30 June 2004) showed 21,318 contributing members and 63 voluntary contributions, a total of 21,381 active contributors. A first estimate of possible extra annual administrative costs has been calculated as follows:

Table 12.7 Estimation of annual administrative costs

Parameters	Estimates
Covered formal sector workers	14,272
Proportion claiming benefits per year	16%
Number claiming benefits per year	2,283
Number per week (50 week basis)	46
Average number per case worker per week	10
Casework staff needed	5
Total staff including general administration	8
Assumed average annual salary of staff	VUV 650,472
Salary Costs	VUV 5,203,776
Other Costs	VUV 5,200,000
Total Annual Costs	VUV 10,403,776
Cost per covered worker per year	VUV 729

On the basis of current average wages and salaries in the Labour Market Survey (VUV 58,953) this would amount to a levy of about VUV 0.1 per VUV 970 of contributor salary. This would need to be added to the premium amounts calculated in the tables above. Set up costs for the first year, including a new computer system, would be much higher than this, but could be covered from part of the inflow contributions in the first year of operations.

Table 12.8 Average monthly earnings

Average monthly earnings by occupation and sex			
Occupation	Male	Female	Total
Legislators, senior officials and managers	192,477	147,093	182,814
Professionals, technicians and associated professionals	77,757	60,710	71,120
Clerks	55,408	53,420	54,206
Plant and machine operators and assemblers	30,825	22,199	30,307
Trades workers	43,493	30,322	42,815
Service and sales workers	44,257	32,198	38,907
Skilled agriculture and fishery workers	23,223	24,423	23,317
Elementary Occupations	23,991	22,272	23,492
Average monthly earnings	63,012	50,643	58,953

Source: Labour market survey 2000

(vi) Cost implications

While at this stage these figures are indicative only, several relatively obvious conclusions emerge.

- The higher the unemployment rate, the higher the premium needed;
- The shorter the benefit eligibility time limit, the lower the premium needed;
- The lower the benefit/ wage ratio, the lower the premium needed; and
- With the VNPF as administrator, additional administrative costs as a percentage of covered wages and salaries would be relatively minor when spread over all VNPF contributors.

However, the more important finding is that a modest short term unemployment insurance benefit scheme could be set up for formal employment sector workers with premiums of 1.5 to 3.5 per cent of wages on the basis of current unemployment levels. The specific premiums needed would depend on the ratio of benefit to salaries chosen, and the time limit on the benefit. Fluctuations in covered unemployment levels would also affect the level of premium needed, but this should average out over time.

12.7.5 Administering the fund and its reserves

The unemployment benefit fund would need to build up reserves to cover future payments. It may be noted that this would occur automatically in the first year, since premiums would be flowing in for 12 months before anyone became eligible for unemployment benefit payments. If the economy was reasonably stable, this would generate sufficient reserves to cover one year's payments, and no much larger accumulation would be needed. However, there would be some uncertainty about future unemployment levels, and it might be desirable to set initial premiums at a margin above the estimated average actuarial need level. Reserves equal to perhaps two years estimated average future payments could be a target in the first few years of the Fund's operations.

If reserves kept on accumulating, options would be to cut contribution rates, or to increase the generosity of the scheme, or to use the surplus to pay for other options such as paid maternity leave. Conversely, if a surge in unemployment depleted reserves, options would be to increase contribution rates, or trim back on the generosity of the scheme.

12.7.6 Other Considerations

As set out, the scheme structure assumes that contributors would not become eligible for unemployment benefit until they had paid contributions for 12 months. It would be possible to vary this by setting some other conditions, such as having paid contributions for 12 of the past 18 months, and having been in regular employment prior to job loss. This would widen eligibility for those with unstable employment.

Another possibility would be to give an unemployment grant equal to a refund of contributions made for those who became unemployed after less than 12 months of contributions.

12.7.7 Other options – paid maternity leave

Women workers would have the same rights to unemployment insurance benefits as men. However, many women are also likely to have to take periods of leave if they give birth. It would be possible for a small increase in contributions rates to add paid maternity leave to the insured employee rights at the same time that unemployment insurance was introduced. This would bring the conditions for most private sector workers into line with the public sector conditions for paid maternity leave.

It would also be possible with a further increase in contribution rates to add in a short term sickness benefit for those who had used up their quota of employer-provided sick pay.

12.7.8 Dealing with other aspects of unemployment and underemployment

While the proposals would deal with much of the short term impact of job losses in the formal employment sector of the workforce, there would be other unemployment issues not addressed by this approach. These include:

- School leavers;
- Other new job seekers;
- Workers in the informal economy; and
- Formal sector workers whose unemployment benefits expire.

It is not proposed at this stage of Vanuatu's economic development that unemployment benefits be extended to these groups. Instead, the focus for these other groups should be on:

- *Job and skills training.* Vanuatu has had to import skilled workers to carry out many jobs while local people are unemployed because they do not have the needed skills. A greater focus on skills training would assist in this area
- *Rural Development.* Vanuatu has much underutilised rural land which needs to be farmed properly. Solving the land leases issue would greatly assist in this area.
- *Business Development Grants.* Vanuatu already uses this approach, although evaluation of scheme effectiveness is needed. Issues include appropriate selection of people, and providing matching practical and business skill training in tandem with any grants.
- *Community Employment Schemes.* These are schemes paid for out of public funds which employ job seekers on community projects such as infrastructure improvement or local social services. Characteristically, low wages are paid, and jobs may only be part time to avoid undermining agreed minimum wage levels for full time employment. This means that the community workers will tend to exit to better paid regular or seasonal employment when this becomes available. This limits the build-up of numbers dependent on state funding.

It is usually important to have women on the local project selection committees, so that projects providing jobs suitable for women as well as men can be selected.

12.7.9 Setting up an unemployment insurance benefit

The process for setting up an unemployment insurance benefit system for workers in formal employment can be a lengthy one, though the length of the process depends on the degree of

initial consensus and government commitment to the objectives. Steps in the process would include:

- Preliminary consultation with employee and employer organisations and Government to identify the degree of support for the objectives, and the level of unemployment support the parties are prepared to pay for. This process could include:
 - Identifying acceptable contribution levels and what these would mean in terms of feasible benefit levels and time limits for benefit payments;
 - Looking at interfaces between redundancy payments and unemployment insurance; and
 - Identifying acceptable cost splits between employees and employers.
- Developing more specific costing and administrative proposals. This stage could include:
 - A statistical analysis of VNPF data to clarify unemployment turnover rates and their benefit cost implications;
 - Preparing more detailed costings of the administrative arrangements for the scheme, including staffing, equipment, computer systems, and accommodation;
 - Developing a full model of scheme options;
 - Indicating a possible legislative and administrative timetable.
- Putting draft proposals and options to employers, employees, and government to clarify which of the options should proceed as the final scheme;
- Seeking Cabinet approval and drafting appropriate legislation, including the date the system would begin, and agreement on the source of funding for set-up costs;
- Obtaining legislative authority by the passage of a bill;
- Setting up an implementation team to put the administrative processes for the system in place;
- Implementing the collection of premiums;
- Setting up the unemployment benefit payment arrangements.

This process could take two years. However, timing would depend on the degree of agreement between the social partners on the broad outlines of the scheme, and the legislative priority accorded by Government.

12.7.10 Conclusion

It appears to be feasible to set up an unemployment insurance benefit Scheme in Vanuatu. The scheme at this stage would need to be confined to employees in the workers in formal employment, in essence the group now required to be National Provident Fund members. It does not appear to be feasible in current economic conditions to extend the scheme coverage to informal economy workers and those in the traditional semi-subsistence sectors. For these groups other income and employment support approaches are suggested.

The type of unemployment benefit scheme which appears to be most feasible is a short term unemployment insurance benefit funded by contributions from employers and/or employees. The cost sharing between these two parties would need to be resolved as scheme design develops.

Also needing to be resolved would be the time duration of the benefit, and benefit/wage relativities. These decisions will affect costs and the premium levels needed to fund the scheme. However, in general terms cost levels could be in the range of 0.5 to 2.16 per cent of covered wages, depending on scheme generosity.

The Vanuatu National Provident Fund is the logical body to administer such a scheme, and should be able to do this at moderate administrative cost levels.

Chapter 13 Social Assistance: Principles

13.1 Introduction

This report provides an overview on Social Assistance patterns and options as part of the wider ILO technical co-operation project on Social Security in the five Pacific Island Countries of Fiji, Kiribati, Samoa, Solomon Islands, and Vanuatu. It provides a background for considering the possibility of using Social Assistance approaches for addressing some of the poverty and social problems which have emerged in these Pacific Island countries.

Each of the five countries are developing societies in which at present a minority of the labour force is employed in the formal economy. The majority of the labour force is involved in the informal economy, which consists of varying degrees of self employment in the money economy, and subsistence production in the form of farming, fishing and gathering for household use. Some households may also obtain some cash from migrant remittances or land lease rents, though this incidence varies widely between the 5 countries.

Table 13.1 Country populations

Country	Population
Fiji	881,000
Kiribati	101,000
Samoa	178,000
Solomon Islands	523,000
Vanuatu	203,000

Source World Factbook Website

In varying degrees each of the countries concerned has faced new social problems as the impacts of modernisation and globalisation have affected traditional societies. Only some of these contingences are covered by any form of formal sector social security, and then only for parts of the population. In some cases traditional forms of resource sharing and reciprocity have further developed to meet these new needs. In other cases unmet needs have emerged, or traditional support mechanisms have eroded. It is this second set of situations for which social assistance approaches may be appropriate, since

contributory social insurance is difficult to organise for the informal cash economy, and unaffordable for low income households and subsistence producers.

Table 13.2 Selected human development indicators comparisons

Country	Adult Literacy	Life Expectancy	Human Development Index
Fiji	93.7	69.2	0.758
Kiribati	n.a.	61.3.	n.a.
Samoa	99.7	70.4	0.769
Solomon Islands	76.6	72.4	0.624
Vanuatu	53.0	62.1	0.570

Sources World Factbook Website and UNDP Report 2004.

The specific situations in the five countries are extremely different, hence any overview of social assistance options will include many which are unrealistic for particular countries in light of their social and economic situation, values, and fiscal and administrative possibilities. Specific options which are relevant to the actual situation of each of the five countries will be the focus of the second part of the social assistance study.

It should also be noted that while the 5 countries project focuses on social security, the analysis used in this report is based on the wider concept of social protection. This wider concept is more relevant to the situation of Pacific Island countries, where a large part of the population is involved in the informal economy, including a substantial subsistence element not based on cash transactions, and traditional forms of social protection have been based on resource sharing linked to kinship, local community, and systems of reciprocity.

13.2 Social protection in traditional societies

The current ILO and other definitions of social protection still focus mainly on formal sector schemes, with the variety of social protection mechanisms which operate in many traditional

societies covered only by the term *informal schemes*.

In the Pacific these informal or traditional schemes are of crucial importance and in most of the 5 countries included in the study are currently more important for the majority of the population than existing formal sector social protection arrangements.

A fuller description of the traditional systems operating in the five countries is given in the companion project report *Traditional Social Protection Systems in the Pacific – culture, customs and safety nets* (ILO Suva 2005). This sets out and describes some of the key traditional arrangements in each of the five countries studied.

These include:

- In **Fiji** these systems include *Kerekere* (asking for aid based on reciprocity), *solesolevaki* (joint communal labour), and *Solevu* (large scale mobilisation and redistribution of community resources, *Soli vakavanua* (communal collection and accumulation of funds) and the concepts of *vakaturaga* (chiefly behaviour) and *yalo solisoli* (social generosity);
- In **Samoa** the traditional mechanisms seen as part of *Fa'a Samoa* (the Samoan way). These include *Fa'alavelave* (a term which includes willing acceptance socio-cultural responsibilities), *Totoma* (asking, based on expectations of reciprocity), *Aula* (non-reciprocal giving), and *S'i*, (traditional gifts to victims of mishaps or the family of the deceased);
- In **Kiribati** traditional arrangements include resource and labour sharing amongst the *utu* (extended family), *karekare* (taking turns at joint work with non-utu members), *te aiai* (sharing fire, now related to arrangements to supplying toddy), *Bubuti* (requests for gifts based on family relationships), *Te Katabetabe* (burden sharing, especially at funerals), and *Tekaonono* (Food sharing with people outside the utu);
- In **Vanuatu** practices vary and are described in different languages by different terms. These include resource

sharing amongst the *Wantok* (a traditional social-cultural network of people with shared language, history, and genealogical lines), and ceremonial gifts at festivals (*nekowiar or toku*);

- In the Solomon Islands a *Wantok* system also exists, and here also this acts as a vehicle for mutual assistance between Wantok members.

While each country has somewhat different systems, and within Vanuatu and the Solomon Islands large differences exist between groups, there are certain common characteristics which also tend to be found in many other traditional societies. These include:

- Resource sharing within nuclear families based on primary family relationships;
- Resource sharing and joint activities amongst members of extended families based both on primary relationships and expectations of reciprocity;
- Resource sharing, joint activities, and risk pooling amongst wider community groups linked by common descent, culture, and/or residence, based both on cultural values and expectations of reciprocity; and
- In some cases, concepts of non-reciprocal giving, often based on religious concepts.

In the Pacific in particular there is a substantial traditional overlap between family and kinship, land ownership, wider community, and shared cultural values. The social protection elements of the system cannot be easily separated from the cultural and economic matrix within which they operate.

13.3 Modern extensions of traditional systems

Much discussion of the role of traditional social protection systems in modern society focuses on the extent of their erosion in the modern period. However, in one important area in the Pacific they have actually expanded in scope. This is the development of cash remittances to extended family members by Pacific migrants who move to the towns to take up cash employment, or move abroad to do the same thing.

Migrant remittances from abroad are now a major part of the economies of Samoa and

Tonga, and are becoming a major factor in the Fijian economy. In cash terms these are far more important in aggregate terms to these countries than for example Foreign Aid. In Kiribati the earnings of seamen and fishermen employed abroad on foreign vessels are now an important source of extended family cash resources.

However, some qualifications need to be made about the role of migrant remittances as an element of social protection.

- There is no very clear relationship between the level of migrant remittances a family (or communal group or church) may receive, and the actual degree of poverty or need. Remittances are received by families with members abroad. The needy with no earning family members abroad do not receive remittances.
- Remittances from individual family members resident abroad tend to decline over time as the date of migration becomes more distant. Hence, the continuation of migrant remittances depends on a continued fresh flow of emigrants to richer countries of settlement destination or temporary employment. High migrant movements have been a characteristic of the recent period for several of the five countries, but cannot be relied on to continue at this level for ever.

The reasons for the eventual decline in individual migrant remittances are various. Migrants are predominantly single or childless adults. At this stage of their life cycle the wages that can be earned from even unskilled work in a developed country provide a surplus of disposable income to fund remittances. As the migrants form their own families and have children, their cost of living rises and less or nothing is available as a surplus to send back. A similar phenomenon has been noted amongst rural Fijians who move to the Fijian cities to take up employment.

However, it also seems that there are other factors which affect migrant willingness to remit, and/or the range of relatives to whom they will still send assistance:

- Long absence tends to erode the closeness of extended family ties;
- The eventual realisation by many of the migrants that they will probably not return

to live in their home village erodes the motive to send back money to keep alive their rights to family or communal land;

- The migrants may be affected by the individualism of the host societies;
- Remittances may be increasingly perceived by the migrants as a largely non-reciprocal relationship.

When working age adults with children are resident in their original village, the contributions they make to the extended family in the form of produce or cash are part of a reciprocal arrangement from which they also benefit. Grandparents or other family members may look after their children while they work. They have access to family or communal land to grow food, and can also use the land to erect a dwelling. Hence, the arrangements are genuinely reciprocal and mutually beneficial.

For the migrants abroad however a different situation applies. If both spouses work they must pay for child care. They must also pay for food, accommodation, transport, and the raft of nuclear-family related expenses. The former reciprocity is largely absent or notional. Hence, both willingness and ability to send money may erode.

13.4 Traditional systems in modern circumstances

Migrant remittances aside, several comments need to be made about the potential ongoing role of traditional mechanisms to provide social protection, particularly where they remained based in a subsistence or semi-subsistence rural economy:

- The traditional transfers are largely geared to meeting subsistence and cultural needs. They are not well geared to meet modern additional needs such as school fees, medical care, and things requiring cash outlays;
- Because access to assistance is heavily linked to family and communal relationships, and past reciprocity, people in need who do not have these appropriate relationships and behaviour history may get little;
- The system does not effectively accommodate strangers who migrate into the area;

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- If the whole extended family or community is poor, ability to provide assistance to the needy is similarly limited. The risk pooling group may not be large enough.;
- Linking of entitlements to rank and social status in some cultures may not concord very well with modern ideas of equality, including in particular gender equality for women.

With these qualifications however, traditional systems will need to provide at least part of social protection in Pacific Island countries for the foreseeable future. None of the five countries are yet at a stage of economic development which would allow the funding of the full range of formal social security and social protection programs found in the developed industrial economies.

To the extent that traditional systems cannot meet modern needs, or the systems themselves are eroding, other options need to be considered. A number of these options can be regarded as being in the nature of social assistance.

13.5 Poverty in Pacific Island Countries

Public social assistance schemes are designed to prevent poverty and destitution, and to meet basic needs. These terms have a variety of meanings, so it is useful to begin by summarising what is meant by poverty and how this applies to situations in Pacific Island countries.

The first concept of poverty is that of primary or **absolute poverty**. People living in absolute poverty cannot feed themselves or their families adequately, are dressed in rags, and are homeless or have only some type of hovel for a shelter. This type of poverty, also called destitution, is found in some parts of Africa and Asia. It is rare or absent in Pacific Island countries, at least so far. This fact often leads people to say that *there is no poverty in the Pacific*.

However, the second concept extends to secondary or **comparative poverty**. People affected by secondary poverty usually have enough to eat and are adequately clothed, though their food intake may not always have all the required nutritional components. They have some type of housing, even if it is not very satisfactory, lacks facilities, or is overcrowded. However, they are faced with a constant struggle to pay bills as they do not have enough cash

income to pay for what have become basic needs in modern society. Hence they cannot pay school fees, medical bills, or contribute substantially in the expected manner to the social and religious activities which are a part of the Pacific lifestyle. They have enough for subsistence, but not more, or not much more. This type of poverty is relatively common in the Pacific, though people are affected by it to varying degrees. It is called comparative poverty because the people affected by it are poor in relation to what is normal in their society. Another term for this is financial hardship. It may also contribute to what is called **poverty of opportunity** where for example children drop out of school because their parents cannot afford the associated costs.

The third concept is that of **vulnerability**. People in this situation usually have enough to feed, clothe, and house themselves, and to pay regular bills. However, they have no margin or safety net. Illness, unemployment, or crop failure will quickly push them into poverty. This situation is also common in the Pacific, notably where there is no formal social security for the majority of the population, and traditional social protection arrangements have eroded.

This range of situations then raises the question as to what are the *basic needs* that a social assistance system should provide for. This is a question to which there is no absolute answer, since it depends on the economy, culture, and fiscal possibilities of each country. However, in a Pacific context the needs that a social assistance system should address at a minimum would seem to be:

- Preventing absolute poverty or destitution, and
- Ensuring access to key services, notably health and education.

For the wider social security system the longer term aim is to develop measures which offset vulnerability and contribute to income adequacy. However, the immediate priorities in development are more basic than this. The Pacific situation would seem to fit the diagnosis of the June 2001 ILO conference, which concluded that the highest priority is to extend social security to those who have none. Given that many of the Pacific poor are in a situation where contributory social insurance is not currently a feasible possibility, this suggests that

social assistance type measures are likely to be one of the priority approaches to extending social security. However, there are also other options for some groups, which will be commented on later. Also, in a longer term context thinking about improving the social security coverage of the formal sector needs to be included in the assessment of options.

13.6 General issues for social assistance systems

While social assistance systems included in the social security systems of developed countries tend to focus mainly on cash benefits, other forms of social assistance are also common, more particularly in developing countries.

Using social assistance cash benefits as a major vehicle of assistance to the poor and disadvantaged is an approach which requires a number of factors to be in place for the system to work effectively. Most of these factors are also required for sector specific forms of social assistance. These include:

- An adequate source of funding;
- A definition of the unit of assistance (individual, family, household) which fits the social realities of the society concerned;
- An accurate system for identifying individuals claiming benefits;
- An effective administrative system which can accurately assess the real economic circumstances of the claimants;
- An effective payment system which can reach the claimants who may be located in remote areas;
- Design features which minimise as far as possible tendencies for benefit claimants to become benefit dependent; and
- Adequate anti-fraud systems.

By their nature, social assistance systems require a considerable amount of administration, and this needs to be factored into the costings.

13.6.1 Funding sources

The funding sources for social assistance are usually the general revenues of the government or public authority, though in some cases designated special taxes may be levied. An issue in countries with two or more tiers of

administration is the extent to which costs should be borne by local governments as distinct from the central government. For example in the United States the cost of social assistance (called *Welfare* in the U.S.) is split between the Federal and State Governments. In Fiji the cost of the social assistance system scheme known as the Family Assistance Scheme is paid for from central government revenues.

13.6.2 Assessment unit

The appropriate assessment unit for looking at who needs social assistance raises significant problems in a Pacific country context, where people are members of extended families and other wider groups. Basing assessment only on the individual or nuclear family may mean the social reality of resource sharing and reciprocal obligations is being ignored. However, assuming that the people concerned are being effectively supported by their extended family may also not reflect the true situation. This is a problem for which each country must find its own solution.

13.6.3 Identification

Accurate identification of individuals is a problem of varying size. It is most difficult where populations are large, people move around frequently, and birth registrations and other civil records are poor. Social assistance systems usually require claimants to produce identity documents (e.g. birth certificates, or identity cards where these exist), and may issue their own identity cards to the beneficiaries. Lack of accurate personal identification may mean that money goes to the wrong people, or people who are entitled miss out.

13.6.4 Economic situation of claimants

Assessing the real economic situation of claimants is difficult in countries where there is a lack of centrally held data on incomes and assets. Extended family issues make this particularly complicated in Pacific countries. However, unless the administration is set up to do an adequate assessment, the twin problems of needy people missing out and fraudsters claiming benefits they are not entitled to will emerge.

13.6.5 Effective payment systems

Effective payment systems are also needed. This is a particular problem for remote areas. In many Pacific countries most people do not have bank accounts or even access to banks. Choices need to be made between cash payment systems, vouchers, and the use of payment agents. Each of these systems has both advantages and drawbacks. After experimenting with a bank-based alternative for paying its Senior Citizens Benefit, Samoa opted for mobile payment teams which delivered the benefit to each village.

13.6.6 Welfare dependence

Designing social assistance systems to minimise the growth of welfare dependence and the handout mentality is a problem in all countries. Cost may be kept down by cutting assistance sharply as beneficiaries earn some other income, but in turn this may discourage work effort. No country has resolved this problem in a completely satisfactory way. Factors which help include restricting social assistance to people who cannot help themselves, and using other options such as special employment for those assessed as being able to work.

13.6.7 Anti-fraud

Finally, anti-fraud checks need to be built into the system. Whenever money is being given away, some people who are not entitled to it will seek to find ways to get their hands on it. This included benefit staff as well as benefit claimants, so the anti-fraud measures need to extend to regular checks on systems and staff, and on payment agents, as well as on claimants.

13.7 The scope of social assistance

Universal payments to specified demographic groups such as universal pensions for older people or universal family benefits for children are not normally classified as social assistance in the technical sense of the term. They may be assimilated into the concept if there are grounds for believing that virtually the whole demographic group is poor or disadvantaged, and hence that making a universal payment is the administratively simplest way to deliver on the social assistance objective. However, payments to specified demographic groups may also form part of a social assistance system in the following ways:

- Payments targeted against income and/or assets, such as the Australian means tested pensions for older people, or the New Zealand income tested family support payments to some families with children; and
- Allowances for children built into the payment rates for the amount of social assistance granted to a poor household. The way these payment amounts are built up to reflect family or household composition is called an Equivalence Scale.

Support for children or older people or other groups in need may also take the form of targeted assistance with health or education costs, or provision for other types of social services. This is commented on in more detail in the following section of social assistance by sectors.

13.8 Social assistance in kind by sectors

Apart from cash benefits, social assistance systems may also apply in individual sectors. This is also referred to as assistance in kind. In virtually all these cases the assistance relates to “basic needs” plus education and health.

13.8.1 Education

Targeted assistance or scholarships to children from low income and disadvantaged backgrounds is frequently used where free education is not fiscally affordable. To allow poor children to go to school and/or prevent early dropouts they may receive scholarships or fee concession. An example of such a scholarship programme was the Indonesian scholarship programme set up as part of the Social Safety Net programme following the 1997-98 Asian crisis.

The Indonesian scholarships, which were distributed by local school-based allocation committees, were successful in stopping the large school drop out pattern which had accompanied earlier economic crises. However, problems with the programme included leakage of scholarship grants to children from non-poor families, plus the fact that the grants seldom reached children from poor families who were not attending school in the first place.

Targeted assistance of this type may also apply to tertiary study. Also, sometimes extra assistance is needed by poor children attending nominally free schools to cover the costs of books, uniforms, travel, and the like. In Fiji remission of school fees is used as a way of targeting education assistance to children from low income families. Samoa also has a similar scheme, though in practice it is seldom accessed.

13.8.2 Health

Where people seeking health care are charged fees, special assistance to the poor may apply.

One option is to give Health Cards to the poor which entitle them to free or concessional treatment, with the government reimbursing the providers. Examples include the Indonesian Health Cards for poor people, and the New Zealand Community Services Cards.

Another option where there are fee-charging public hospitals, clinics and dispensaries, is to exempt some categories of people deemed to be poor from paying these fees. An example of this is the exemption of recipients of the Samoan Senior Citizens Benefit from payment of hospital fees.

13.8.3 Food

Direct allocation of food by Governments to poor people is rare. The main exceptions are situations of natural disasters or famines, or emergency refugee situations. However, a number of NGOs in countries such as Australia, New Zealand and the US run Food Banks. These involve direct gifts of food to poor people.

Somewhat more common are various forms of concessional food assistance programmes for poor people. Examples include:

The U.S. Food Stamps programme. Poor people (mainly social assistance beneficiaries) are given these stamps with designated values in exchange for a small co-payment. The stamps can then be used to buy food in many food shops. The government then reimburses the shop for the value of the food purchases represented by the Food stamps. A type of Food Stamp programme also formerly existed in Sri Lanka.

Another variant is the Indonesian Rice Subsidy Card which entitles poor people holding the card to buy government provided rice at a cheap price. The amount permitted to be bought per family is limited to 20 kilos per month.

The New Zealand government sometimes provides emergency food vouchers to some social welfare claimants while their claims for regular benefits are being assessed.

Food concession rather than cash assistance tends to be given when Governments see priorities in meeting basic needs, and where there may be suspicions that cash aid will be diverted to other purposes.

13.8.4 Accommodation

Accommodation assistance to the poor is frequently found as part of broader social assistance systems. A number of mechanisms exist.

- **Direct provision** of *social housing* to low income people. Examples include U.K. Council Housing, U.S Public Housing, French *HLMs*, and New Zealand State Housing. Fiji also has a public housing program. Direct provision involves supplying poor people with houses or apartment provided at low concessional rents.
- Some countries may give **direct grants** to low income people for housing construction or alteration. An example is the Fijian housing grants which are part of the Poverty Alleviation Programme. Qualifying poor people can get grants of up to FJD 5,000 for housing construction and FJD 3,500 for alterations.
- **Concessional interest** loans for low income people to build or buy houses were formerly part of the New Zealand housing policy.
- Accommodation **cost subsidies** for low income people include the New Zealand Accommodation Supplement. This covers, rent, mortgage, and board cost, and is subject to income and assets tests of eligibility.

13.8.5 Transport

Transport cost concessions are extended to low income or disadvantaged people in some countries. Samoa for example gives free inter-island ferry travel to recipients of the Senior Citizens Benefit. Fiji provides free school transport for children in remote or outer island areas without schools.

13.8.6 Disability Services

People with a range of disabilities have needs which are additional to those without physical or mental impediments. These may include things such as artificial limbs or modification of housing which lie on the margin between the Health and Social sectors. A social assistance approach funds these needs for low income people.

13.8.7 Maternity

Medical costs associated with maternity may be paid for low income women in countries with social assistance schemes for the poor.

Paid maternity leave however is normally part of employment-linked rights in the formal sector, and is usually funded by social insurance contributions or employer liability arrangements. In principle however it could be funded by public revenues. In New Zealand this is the case, though again this applies only to women in paid employment.

Extending the principle to all women via social assistance raises major problems of practicality in situations where there was no identifiable prior cash income to be lost. This is often the situation in Pacific Island countries where the majority of women are in the informal economy, and may be classified as unpaid family workers or domestic carers, even though part of their daily activity is involved in informal production.

13.9 Using the tax system for social assistance

Countries which have highly developed tax systems may also use these systems to fund some social assistance. For example the New Zealand tax system allows claims for Family Support for low and moderate income people with children

to be offset against their tax liability. Fiji allows a tax concession for support of disabled relatives.

However, it should be noted that this approach is only feasible and equitable when most people are taxpayers in the cash economy. Tax concessions are largely irrelevant to poor people in the subsistence sector, since they have little or no cash income to tax in the first place, and so no income tax liability to be offset.

13.10 Other Poverty Reduction Options

Options for reducing poverty amongst the poor and disadvantaged are not confined to social transfers such as social assistance. Some other options include the following:

(i) Special Community Employment

For able bodied poor people able to undertake work a better option than social transfers will sometimes be special community employment in infrastructure and social service projects.

Payment for undertaking this work is usually set close to or slightly above equivalent levels of social assistance payments, or unemployment benefits when these exist. The work undertaken is usually on infrastructure projects, such as repairing roads, clearing weeds and scrub, or on providing labour for needed social services. Work allocated may sometimes be part time or part week only to avoid undermining agreed wage standards for full time employment.

Special community employment projects of this sort have been used in Indonesia and New Zealand, and also in a number of African countries.

The advantages of this approach include the following:

- Severe poverty is reduced;
- Useful works or services are carried out to the benefit of the community;
- The otherwise unemployed retain a work ethic, and can gain pride from their contribution;
- With payments set below normal wages, the special workers have an incentive to exit the system when regular or seasonal work becomes available; and
- The requirement to undertake work acts as a way of screening out people with other

options who might otherwise claim social assistance.

However, some cautions need to be borne in mind when considering setting up a community employment option:

- The system costs more per person to operate than passive social assistance payments. This is mainly because supervisors with adequate understanding of the tasks to be performed need to be appointed, and there are also other overhead costs such as provision of materials and tools and equipment for many projects;
- Regular supervision is needed to ensure that the work is actually carried out. Indonesian experience was that in poorly supervised projects work was often not done, or not done well;
- A vigilant eye needs to be kept on those responsible for implementing the community work projects. The New Zealand experience in the 1980s was that some local authorities, and even some NGOs, when allocated special workers then quietly reduced their numbers of regular paid workers, and let the community workers paid for by the government take over the tasks. The Indonesian experience after 1997-98 was that some of the implementing authorities paid much higher levels of allowances than set out in the regulations, hired fewer people than they were paid for, and gave jobs to people who were not poor;
- Adequate provision needs to be made for employment of women as well as men. A complaint about the Indonesian schemes was they focussed on providing jobs done mainly by men, but not women. This affects the range of jobs which need to be included in community employment schemes. Including social service type projects expands options for women as well as for men who are not very physically fit. Having women on the advisory committees which select projects for community employment would assist in this issue.

Overall, care needs to be taken to ensure that the community work chosen for projects is

something extra of benefit to the community, and not work which would otherwise be carried out in any case by wage workers, self employed, or community volunteers.

An issue with some community employment schemes with low weekly payment rates is whether they undermine agreed minimum wage standards. Where this is an issue an option is to make the period of paid employment less than a normal work week. This could take the form of community employment for 2 or 3 days a week, or half days only.

Part time employment has some disadvantages in terms of continuity of work on particular projects. However, there are also some offsetting advantages. Supervisors can supervise two groups of special workers rather than only one, and this keeps down some overhead costs. Also, the community workers have more time to engage in job search or subsistence production.

(ii) *Universal benefits*

A further option is to pay universal benefits to groups such as the very elderly where there are grounds for concluding that most of the group are in fact in poverty.

Universal pensions are more expensive than targeted social assistance pensions, since they also go to people who may be rich or middle income, including those who already have retirement pensions from contributory or employer provided schemes. These people are excluded from entitlement in social assistance type pensions.

However, in some societies a universal pension may be a way of solving some policy dilemmas such as the administrative cost and political unpopularity of means tests on pensions. Also, universal pensions can provide a separate income for older women, who may not otherwise have any separate source of income.

A trade-off for the higher cost of universal pensions may be the setting of lower pension rates, and a higher pension entitlement age.

In the case of South Africa the universal pension for the elderly appears to have been beneficial. Living standards of the elderly improved, and studies showed that some of the assistance was also spent on other extended family members, such as grandchildren. Also, adult children were

more willing to take older people into their homes when they could make a cash contribution out of their pension

The South African case was of course quite distinctive, since the great majority of older Africans were living in poverty before the pension was introduced. This situation is not necessarily found in other countries.

In the developing Pacific universal retirement pensions are paid in Samoa from age 65 and Kiribati from age 70. Amongst the developed countries in the Pacific New Zealand has a universal pensions from age 65, but Australia has an income and assets test on its retirement pension. Elsewhere in the world universal pensions are rare. Amongst developing countries Botswana, Mauritius, Namibia, Nepal, and Bolivia have some form of universal retirement pension or grant, but most other developing countries do not. Amongst the developed countries they are also rare, since the main reliance is on contributory social insurance and other contributory pensions. However, several Scandinavian countries have a low level universal pension which complements a predominant use of contributory social insurance pensions.

One other group which is sometimes the beneficiary of universal benefits consists of children. New Zealand had a universal family benefit up till 1991, though it was paid at a low rate. This benefit was abolished in 1991, and Family Assistance retargeted to low and moderate income families only.

Universal Family Benefits usually only emerge when birth rates show signs of dropping below population replacement level. The current demographic situation in the Pacific Island States is very different from this.

(iii) *Universal sector in kind programs*

A further option is to create universal entitlements to core *in kind* programs designed to meet basic needs. Examples include free education and free health care. Such programs are usually provided by public sector agencies or private and NGO organisations funded by the government. This is an approach which has been used in some Pacific Island countries. For example Fiji has free public health services.

Universal programs are expensive, and budgetary considerations may rule this option out. A further problem is that free universal systems are sometimes significantly under-resourced in many developing countries. In Fiji for example there are complaints that government pharmacies may sometimes lack some prescription drugs. In Indonesia in low income districts the public hospitals were also short of prescription drugs.

Free services provided without user charges also do not necessarily mean free access to these services by poor people. For example, although tuition may be free in public schools, money has to be found by the families of the students for books and materials, school uniforms, activity fees and *voluntary* donations, and transport to schools. These extra costs may make schooling unaffordable for some children from poor families.

Similarly public health services may be free in the sense that no user charges are levied, but poor people living in remote areas may not be able to afford the transport costs of accessing these facilities. This may require a residual role for social assistance to fund travel costs. In Fiji for example the Government pays the cost of transporting patients from remote areas who are referred to a public hospital.

Overall, free public provision systems work best where they are well resourced, and some supplementary consideration occurs for the poor.

(iv) *Legally enforcing traditional obligations*

Another option is to use the legal and administrative system to enforce generally accepted obligations of other persons to support the dependent poor person:

- In Singapore adult children who are earners are legally required to support their elderly parents if the latter are poor. In a recent court case the Singapore judge ordered the adult children to support an indigent father, but also said that the father had to move out of his existing apartment and move into a smaller and cheaper place before this was required to be done;
- Most developed countries have some form of maintenance or child support to support deserted spouses and children. This approach also occurs in some developing

countries. Fiji for example has a court based maintenance system, though the Fiji Department of Social Welfare advised that more than half of the required maintenance payments are in arrears;

- New Zealand has a Liable Parent Scheme where assessed amounts of Child Support levied against an absent, divorced or separated parent is collected by the tax department. New Zealand also has a bilateral agreement with Australia whereby each country will collect the liable parent contributions from each others citizens, when these people shift between countries in order to avoid their financial obligations to support their children;
- The United Kingdom has a Liable Relative scheme which may apply where children are required to be supported by government benefits.

The possibility of effectively using the legal and administrative system to enforce some traditional obligations to support dependents depends on several factors:

- The acceptability to the population of doing this. Some traditional obligations may no longer be regarded as reasonable to enforce, as they were really of a voluntary nature;
- The real economic situation of those required to pay. If the liable person is also poor, there is not much chance of getting support; and
- Administrative Feasibility. Actual enforcement requires an effective administrative collection system.

(v) ***Promoting Community Support Options***

Short of legal enforcement, the Government and community leaders can promote community ways of providing for the poor and disadvantaged. One rural community in Fiji for example set up a program where its members provided one day of work a week on communal vegetable gardens which provided food for the poor. In urban areas voluntary food banks are also an option. The scope for this approach will vary from country to country.

(vi) ***Development***

The main way out of poverty for most of the population is linked to economic development and the expansion of economic opportunities this brings. However, most development issues lie outside the fields of social assistance and social security.

13.11 Choosing options

Pacific Island countries have limited resources and hence must take particular care in determining which of the various options for assisting the poor and disadvantaged should be considered.

This section sets out a *menu* of options, some of which may be relevant to each particular Pacific Island country. More specific proposals relevant to Vanuatu are discussed in the next Chapter.

Chapter 14 Social Assistance in Vanuatu

14.1 Summary

This report on Social Assistance in Vanuatu is part of the ILO Review of Social Security in five Pacific Island countries. It looks issues related to the provision of social assistance in Vanuatu.

Social assistance is targeted assistance provided to the poor and needy in each society. It may be formal or informal.

Formal social assistance is usually provided by the public authorities in each country. Characteristically it is funded from public revenues, and may be either in cash or kind, or take the form of subsidies for access to certain goods and services such as health and education. However, some social assistance may also be provided by NGOs and charities.

Informal social assistance may come from a variety of sources. In Vanuatu informal social assistance comes largely from extended families and from socio-cultural or kinship affiliation groups known as *Wantoks*. In essence assistance to those in need is based mainly on concepts of relationships and reciprocity. Assistance arrangements intertwine with customary practices and customary land ownership patterns and land use rights in ways which cannot always be clearly distinguished. These informal social arrangements constitute the main source of social assistance to deal with adverse contingencies in Vanuatu. However, longer-term trends are tending to erode the informal system, though it is currently still strong.

Apart from the extensive use of informal social assistance, there is very little formal sector activity in Vanuatu which can be classified as social assistance. Most other forms of social protection take the form either of a limited range of contributory social insurance arrangements, and a number of employment-linked entitlements. However, these apply only to wage and salary earners in the formal economy, and not to the majority of the population involved in informal activities of either a cash or semi-subsistence type. In some cases extending social

protection to other groups will require Government funded social assistance.

Current public sector priorities in Vanuatu stress economic development and the generation of income earning possibilities with virtually no targeted focus on social problems. The fiscal situation of the country provides limited scope to introduce new programmes. However, after a period of fiscal consolidation and economic reform the economy is now growing again, and some capacity to fund new activities is emerging. It is also clear that a number of long-term problems are building up which will need to be addressed by government action. These are commented on in this report.

14.2 Introduction

The Republic of Vanuatu an archipelago comprising 83 islands in the Western Pacific Ocean dispersed from latitudes 13–22 degrees south. This places it between Fiji in the East, the Solomon Islands in the North West, and New Caledonia in the South as its nearer neighbours. The total land area is 12,189 square kilometres, with a total Extended Economic Zone of about 680,000 square kilometres. The majority of the islands are of volcanic origin, with frequently high mountainous interiors surrounded by low coastal plains which hold most of the population. Some of the volcanoes are still active, as are earthquakes, since Vanuatu is in the Pacific *Ring of Fire*, where tectonic plates meet. Other natural hazards come from tropical cyclones, as Vanuatu is also located in the South Equatorial Cyclone Belt.

Organisationally Vanuatu is divided into 6 provinces which each group together a number of adjacent islands around the larger islands. The mainly rural population is dispersed across each of these groupings. Only two urban centres of any significant size currently exist in Vanuatu. These are Port Vila and Luganville.

Land holding is mainly traditional or *custom* land, though some areas of private and public ownership exist. Some other land is also leased

out on long leases to people who are not of the local ownership groupings.

This dispersed and mainly rural population pattern makes service delivery complicated, as sea or air transport is needed between islands.

A distinctive feature of Vanuatu is the high number of indigenous languages, with around 120 separate languages or dialects spoken. Official languages of education are English and French, with the trade language Bislama being widely spoken as the main oral means of communication between people of different language groups.

14.3 Population

At the 1999 Census Vanuatu had a population of 186,678. Current estimates place the total at over 206,000 the inter-censal growth rate in the 10 years to 1999 averaged 2.6 per cent a year. Even so, average population density is still under 20 per square kilometre.

The indigenous population or Ni-Vanuatu are predominantly Melanesian, with some small Asian, European, Polynesian and other minorities. Over 40 per cent of those enumerated were under 15 years of age.

At the census 78.5 per cent of the population lived in rural areas, and 21.5 per cent in the urban areas of Port Vila and Luganville. Household size in the 1999 Census averaged 5.4 persons. Of these households 92 per cent reported a male head of household.

Most people live in villages in semi-traditional ways, and occupy traditional lightly constructed dwellings made mainly from local *bush materials*. which are rebuilt every few years. Town dwellers mainly have modern type dwellings of permanent building materials. However, a feature of the recent period has been the accelerating migration from villages to the urban centres, and the development of some squatter settlements on the outskirts of the towns. These people have no secure legal title or lease to the land they occupy. Many of the squatter houses are temporary structures made from corrugated iron and boxing material, and with inadequate sanitation and water supply arrangements.

14.4 Economy

Vanuatu ranks as a Least Developed Country with low average incomes. The majority of the population are involved in semi-subsistence farming and fishing. However, subsistence production now represents only around 10 per cent of measured Gross Domestic Product. A minority of the population who are in the higher income formal economy which focuses on trade and tourism, and on the provision of government services produce most of the rest of domestic output. In this sense Vanuatu has a distinct dual economy. For some purposes it is useful to further divide the economy into three sectors:

- The formal cash economy of registered payers of Goods and Services Taxes in the private sector, plus government activities;
- The informal cash economy consisting of informal self employment and small scale businesses not registered for GST; and
- The mainly rural and traditional subsistence economy producing output for the personal consumption of the household and for communal social participation.

This threefold division is however useful only for some purposes as there is a degree of overlap between each of these three divisions. For example many mainly subsistence rural producers also sell some output for cash, and might better be described as *semi-subsistence*. Similarly, numbers of the employees of small-scale enterprises in the informal cash economy are also registered contributors to the Vanuatu National Provident Fund.

A minimum wage of VUV 16,000 per month applies to full time workers. This is shortly to be raised to VUV 20,000 per month. On current exchange rates this is equal to a little under USD 200 per month. However, the GDP per capita in 2003 was only around USD 720 per year, as much lower incomes characterise the semi-subsistence majority of the population.

14.5 Composition of the economy

Vanuatu is now a mainly services economy in terms of where output is generated. Formerly agricultural exports were a significant part of the cash economy, with copra, coconut oil, kava, cocoa and beef being significant exports. Most of these products have tended to decline in relative importance, and commercial agriculture is now

only around 5 per cent of GDP. Services activity linked to the growth of tourism has grown in its place.

By sector, services now provide over 75 per cent of measured output, agriculture, forestry and fishing about 15 per cent, and industry, utilities and construction around 9 per cent. Within the services sector the biggest components are wholesale and retail trade, and government services.

The balance of payments has a structural current account deficit offset by investment inflows and borrowing. Domestic exports are less than a quarter of imports for domestic consumption. However, earnings from tourism offset much of this imbalance. Overall, in 2003 exports of goods and services were 44 per cent of GDP, and imports of goods and services 59 per cent of GDP. The cash economy of Vanuatu is therefore highly linked into the world trade and tourism economy.

Vanuatu is also a registry for foreign owed companies and shipping vessels, a pattern assisted by the fact that Vanuatu has no income tax. At the end of 2004 there were 4,464 International Companies registered in Vanuatu. At the same date there were 590 vessels on the shipping register. VUV 142 million in net shipping fees was collected.

14.6 Recent economic trends

Vanuatu experienced a period of economic deterioration after 1998, with negative growth in several years. At the same time population continued to expand. Consequently, real GDP per capita in constant 1993 prices fell from 94,595 Vatu in 1998 to VUV 78,065 Vatu in 2003. Political instability and a series of natural disasters each played a role in these problems.

More recently the economy has returned to a growth path, and output has begun to rise faster than population once more. Output grew by an estimated 2.4 per cent in 2003 and 3.2 per cent in 2004. Early output trends for 2005 are also encouraging.

An infrastructure development programme funded by U.S. is currently being set up.

Inflation has been low in the recent period. Inflation was 2.3 per cent in 2002, 2.9 per cent in 2003, and 0.8 per cent in 2004.

14.7 Labour force and employment

Vanuatu has a majority of its economically active population engaged in subsistence or semi subsistence production, and a minority in formal sector employment. However, the ratios between the two depend on which set of definitions are used.

The 1999 Census identified around 79,000 economically active people aged 15 years and above, of whom 22,000 were in the formal economy, and 57,000 in subsistence agriculture. This suggests a ratio of 28 per cent in the formal economy.

The narrower definition of the formal sector used in the 2000 Labour Market Survey which counted only GST registered enterprises in the private sector plus Government employees identified only 14,272 formal economy employees, or around 18 per cent of the total economically active group. This group included 4,475 government employees. The formal sector employees were employed in 1,004 businesses, including 60 government entities. Excluding the government entities, the average number of employees per private sector enterprise was just over 10 persons. A few large organisations pushed up the average, as most Vanuatu businesses employ fewer than 10 people.

Conversely, active contributors to the National Provident Fund in 2005 numbered 25,145. Allowing for the growth in population over the period this suggests that round 28 per cent of economically active people are in formal sector wage and salary employment on a full or part time basis. To the extent that some liable people may not be contributing to VNPF, the true wage and salary earner total may be a little higher than this. A further group not included in VNPF statistics would be involved in cash generating self employment. However, at most one third of the population is involved mainly in the broadly defined cash economy, and two thirds in semi subsistence and subsistence rural production. The subsistence proportion could be higher again if some women in the rural sector now classified as economically inactive are in fact more accurately viewed as subsistence economy producers.

There is no current measure of the level of unemployment in the economy. It is unclear what unemployment means in rural Vanuatu, as village people are also involved in subsistence production. For rural Vanuatu underemployment may be a more useful concept. However, in the towns unemployment is visible, particularly amongst young people.

14.8 Government finances

Government revenues in Vanuatu depend mainly on goods and services tax (a value added tax), and customs and import duties. There is no income tax, but moderate amounts of revenue come from various registration fees, and some from grants from abroad. Government expenditures are about 23 per cent of GDP.

The economic difficulties of the period after 1998 resulted in a series of serious budget deficits. However, a period of fiscal consolidation, public sector reform, and a more recent focus on collecting due taxes has seen a fiscal turnaround. By 2004 the government accounts were back in surplus. A deficit VUV 1.328 million in 2002, equal to around 19 per cent of revenues, had turned into a surplus of VUV 382 million in 2004.

A consequence of the period of fiscal consolidation was the cutback in real funding levels for health and education despite the growing population, and lack of any new funding initiatives to address social problems. The easing of the fiscal situation may offer some limited scope to begin addressing some of these issues.

14.9 Poverty

The extent to which poverty can be said to exist in Vanuatu is mainly a question of definition. In essence poverty in Vanuatu is defined mainly in terms of lack of sufficient cash income and the poverty of opportunities this creates. This is comparative poverty.

Abject poverty or destitution of the type found in parts of Africa and Asia is rare or non-existent in Vanuatu, as most people have access to traditional land to grow crops, and are members of extended families and *Wantoks* which provide mutual assistance. Only 4 per cent of people claim to be landless. However, cash to pay for things such as medical expenses, school fees, and

purchases from the cash economy is frequently lacking.

The 1998 Vanuatu Poverty Survey saw lack of sufficient cash income as the biggest overall issue identified. This problem seems to have grown since the survey, with increasing reports of family hardship. Lack of adequate water supplies in rural areas and lack of adequate dwellings and/or land access in urban areas were the major basic needs issues identified. Other issues included lack of access to schools, hospitals, markets, and paid employment.

Comments from NGOs indicate that ability to fund an adequate diet is now a problem for numbers of families in Vanuatu. Sometimes the problems are linked to other social problems such as family breakdown, sole parenthood, and excessive Kava drinking.

14.10 Issues for women

Legally women in Vanuatu enjoy equal rights to social protection, and employed women in the formal economy have the same rights to provident fund and employer provision arrangements as men. They also have access to employer provided paid maternity leave.

However, in practice the situation of ni-Vanuatu women is not quite as equal as this. They are less likely to be in paid employment, and in the traditional economy tend to have fewer rights of use of customary land than men, and are often not included in decision making. They are also less likely to be able to access training in various types of skills.

Women also tend to bear the brunt of adverse social changes, including marriage breakdown, sole parenthood, and domestic violence. There is no formal social safety net for most of these issues.

14.11 Social protection in Vanuatu

Social Protection in Vanuatu consists of a mixture of informal arrangements focussing on extended families and *Wantoks*; the contributory Vanuatu National Provident Fund, and a range of employment-linked entitlement for wage and salary earners in the formal sector. There are also a small number of formal economy voluntary arrangements, notably those organised by the Teachers Union. A few activities are provided by

NGOs, and Government funds much of the cost of the education and health sectors. However, user charges also apply in these areas.

14.11.1 Informal social protection

For the majority of the population embedded in the informal economy the main forms of social protection are the network of traditional extended family and *Wantok*-linked mutual assistance or resource sharing arrangements which form part of traditional Vanuatu culture. *Wantoks* are socio-cultural, linguistic, and kinship-linked groups which play a major role in traditional society. People in need will usually approach others in these networks for assistance, while extended families traditionally care for dependent children and frail elderly people.

Most of the traditional arrangements could be described as being based on actual or ascribed kinship, and on reciprocity leading to mutual resource sharing and risk pooling. Other elements include reparations for wrongdoing.

The Vanuatu traditional system is described more fully in Chapter 6, *Tradition Social Protection Systems in the South Pacific – culture, customs and safety nets*.

Up till recently the traditional Vanuatu system has in most respects worked fairly well in providing social protection to its members, but is coming under increasing pressure as a result of other social problems and the impact of migration to the towns. While in most ways the system is still strong, the erosion of traditional arrangements will create a need for formal social protection including some elements of Social Assistance.

14.11.2 National provident fund

The main social security type organisation in Vanuatu is the Vanuatu National Provident Fund. It is a contributory provident fund of a defined contribution type providing lump sum retirement grants. Employees earning 3,000 or more Vatu a month are required to join. Contributions are 4 per cent each of salary or wage from both employers and employees, a total of 8 per cent. These plus earnings accumulate in individual member accounts.

The low threshold brings in many part time workers, as the minimum wage is VUV 16,000 a month, soon to rise to VUV 20,000. Currently there are 25,145 active contributing members, with another 13,549 listed as inactive. The VNPF enrolls 1,593 employers, including some employers of domestic staff.

The programmes covered by the VNPF are only lump sum grants, and a death insurance policy which also funds funeral expenses. There are currently no pensions, though this option is being actively investigated as part of the ILO social security programme.

Lump sums may be accessed at age 55, or earlier in the event of death, medical incapacity, or permanent emigration. In the case of death the family receives the payment.

In the past the VNPF provided member loans for housing and other purposes. However, this practice was discontinued following problems in getting repayment of a number of these loans, particularly those made to political figures. Non-performing loans were transferred to another organisation as part of the VNPF reconstruction following the VNPF riots.

14.11.3 Employment Act

The second major source of social protection for formal economy workers is the Employment Act, which mandates employer provision of a number of benefits. Employer provision under the Act includes:

- Sick leave on full pay of up to 21 days a year;
- Maternity leave on half pay for a total of 12 weeks, 6 before and 6 after confinement. (The Government however provides this on full pay for its employees);
- First Aid and transport to medical treatment in the case of work injury;
- Severance pay calculated at a rate of 15 days for each year of employment; and
- Repatriation allowances for those recruited from a place of residence more than 50 kilometres from the place of employment.

14.11.4 Workers compensation

Employers are required to insure with private insurance companies to cover work injury. The

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insurance covers medical costs and lump sums for permanent injury.

In practice compliance with the law is often a problem. The possibility of a centralised Workers Compensation Scheme is currently being explored.

14.11.5 Other providers

Some **employers** provide more than the statutory requirements to their staff or part of their staff. These extras may include health costs, housing allowances, and child allowances. However, this is mostly the case with a few big companies, and most of the smaller employers do not provide these extras.

The **Government** provides a housing allowance for its staff, a remote area allowance for some staff, a child allowance, and recruitment and termination allowances. It also reimburses employees 75 per cent of medical costs, and provides full pay for the 12 weeks of maternity leave.

The **Teachers Union** also has a contributory social insurance scheme for its members. Fees are 2000 Vatu per month. This covers:

- Health and hospital costs, including maternity, dentistry and optical,
- Inter-island transport and remote areas evacuation for medical reasons, and
- Life insurance.

In addition the Teachers Union has a land-purchase/housing scheme, and a savings and loan scheme

In Port Vila the Ifara Trust representing about 1200 traditional custom landowners of the Port Vila area uses its earnings from business including shipping, and landowning to provide additional benefits to its members. These include:

- Education fees;
- Tertiary study sponsorships;
- Medical expenses, including some overseas treatment for procedures not available in Vanuatu;
- Pensions of 5,000 Vatu per month for those members aged 50 plus;

- A loans scheme to cover special events such as marriages;
- Casual stevedoring employment for those Trust members without employment; and
- A 10,000 Vatu Christmas Shopping Voucher each year for members aged 18 plus.

14.11.6 Non government organisations

A limited number of NGOs provide some programmes to disadvantaged people. These include the Vanuatu Red Cross, and the Society for Disabled People.

14.11.7 Social assistance

Social assistance is targeted assistance to poor and disadvantaged people. Characteristically it is paid for from public revenues, or in some cases NGO or donor aid. It may take the form of cash grants, direct provision of services, or subsidies. In some cases special subsidised employment may be included in the broader definition of social assistance.

In industrial countries the major form of social assistance consists of cash transfer payments to the poor who are not covered by other social security programmes. These programmes are not found in most Pacific Island countries, with the notable exception of the Fiji Family Assistance scheme.

More common in those developing countries which have any social assistance programmes are various forms of direct or subsidised provision of services, such as provision of health or education services, food subsidies for the poor, and some forms of housing assistance. These are often referred to as *in kind* assistance.

14.12 The Situation in Vanuatu

There is no public sector cash social assistance in Vanuatu, and little that can be regarded as *in kind* social assistance.

There is also little or no Government funding provided to NGOs or agencies dealing with social problems.

There are however some elements of direct service provision to broader population groups

which replace some of the needs for specific social assistance. In some other sectors there are clear emerging social assistance needs which are not currently being addressed. These are commented on sector by sector.

14.13 Natural disasters

Vanuatu is prone to natural disasters which create local devastation and loss of livelihood. The localised nature and significant scale of these disasters means that they tend to overwhelm the local coping capacity and mutual assistance capabilities of extended families and *Wantoks*.

A Secretariat is set up which co-ordinates Government responses. It usually seeks external aid when resources are needed as there is no permanent government fund to assist those affected by disaster. For the duration of the emergency, assistance in practical form (food, clean water, clothing, blankets, temporary shelter, and transport) may be provided to disaster victims. Temporary remission of school fees may also apply.

Other assistance comes from NGOs such as the Red Cross.

The lack of any permanent fund for government provision of emergency disaster relief can mean significant delays in aid reaching affected people. There would seem to be an advantage in having a central disaster relief fund set up which can be activated when a natural disaster emergency is declared.

14.14 Health

Health costs are one of the two major areas of Government expenditure in Vanuatu, and the hospitals are Government provided services.

Policies on charging for health costs have varied in the recent past, but the current situation can be summarised as follows.

- Outpatient health care is in principle free, and actually free in Port Vila Hospital, though actual practices vary by area, with most hospitals or clinics elsewhere asking for donations, usually of 200 Vatu per case;
- Prescription pharmaceuticals on the free list are provided free at the Port Vila hospital pharmacy. Elsewhere the prescription

medicines are provided free to the locally funded dispensaries. In turn they add charges to cover their own administration costs. Again, 200 Vatu per prescription is a common fee;

- Hospital inpatient medical care is in principle also free, but patients must pay for the food and board supplied to them;
- Local Aid posts have supplies of non-prescription drugs, but usually charge a fee of 200 Vatu for their supply; and
- Specialist medical services not available locally may be provided by visiting specialists from abroad, or in some cases by medial evacuation to Australia or Fiji.

Many poor people do not have the money to pay for medical fees, especially the hospital boarding costs. In some cases they provide donations in kind of food or other products. In other cases relatives assist with cash. The hospitals also have many uncollected bad debts.

Many people also consult local traditional healers.

Health costs are one of the factors mentioned by NGOs as being a problem for low income people. The informal economy survey indicated that Health Insurance was the top single social security priority identified. For the groups which cannot afford Health Insurance, the only real options would seem to be some form of Health-linked social assistance such as Health Cards, entitling the holders to free or concessional treatment, or else the more expensive option of universal government programmes.

Nutrition

The 1997 Nutrition Survey indicated that many people had poor diets. This seemed to be due to a mix of the effects of low incomes and a shift away from traditional foods to less nutritious imported foods such as white rice. One consequence was the growth in the incidence of non-infectious diseases such as diabetes and heart diseases.

However, there are no food assistance programmes for the poor. The issue did not figure amongst the informal economy survey priorities.

14.15 Paid maternity leave

Paid maternity leave was the lowest priority in the informal economy survey. This may reflect the fact that formal economy workers already have it, while their informal economy counterparts are used to the extended family dealing with support for mothers in this situation.

It is not clear that there is a current need to extend social assistance to the group outside the formal economy. However, voluntary insurance for cash earners would be an option.

14.16 Disability

Only partial information is available on disability levels in Vanuatu. However, a survey on the island of Tanna found about 1.5 per cent of the population classified as disabled. This is a group which has traditionally received no assistance from the government. Mostly they are supported by their extended families. While this is a healthy social pattern, it does mean that many of their specific needs are not actually recognised or met.

The Vanuatu Society for Disabled Persons provides some assistance with disability aids and equipment, training, and raising community awareness. However, the Society has only 6 field workers for the whole country, each of whom must work across a whole range of disability type issues.

Currently the Society receives no government funding, though it does receive some funding from external NGOs. This would seem to be an area where government funding to provide more services to the disabled is needed.

In the longer run the question as to whether Vanuatu should have an Invalids Benefit will need to be addressed. An issue is whether any such measure should be a statutory benefit paid to all seriously disabled people, or a means tested Social Assistance Benefit paid only to the disabled poor, or perhaps only to those without extended family support.

14.17 Work injury

Disability as a whole did not feature in the informal economy list of social security priorities, presumably because it directly affects only a small group of people. However, Work

Injury which can potentially affect all workers did figure amongst the top three priorities.

For informal economy workers in the cash economy, the option of work injury insurance may be viable if difficult to market. For informal economy workers without significant cash earnings some form of social assistance might have to be an option if the extended family could not cover for the injured person.

14.18 The elderly

Vanuatu has no age pension, and no social assistance for indigent elderly citizens. Furthermore, its National Provident Fund focus is on lump sum retirement grants. For the immediate future, the priority would seem to be looking at ways of converting the contributory VNPF entitlements into some form of pension.

For the majority of the older population who have no VNPF entitlements, the current situation is mainly taken care of by the continuing strength of the Vanuatu extended family system. In the longer run population urbanisation, the growth in the relative numbers of the elderly due to rising life expectancy, and the further spread of the cash economy are likely to begin to undermine this pattern. If this happens, the phenomenon of unsupported poor elderly people can be expected to emerge.

Awareness of the future problem seemed to be a feature of the informal economy survey. Aged/Retirement provision was one of the top three priorities in the informal economy survey.

A policy issue is the extent to which the need can be met by the extension of contributory options from the formal employment sector into the informal but cash earning sector.

It is probable that even with successful marketing of voluntary contributory old age provision, an inadequately supported older age group will eventually emerge.

Attention would then need to turn to options for supporting poor elderly people. These would include a targeted social assistance approach such as that used in Fiji, or a universal pension for the elderly such as is found in Samoa or Kiribati.

14.19 Life/Death insurance

This had a medium/low priority in the informal economy survey.

This area is probably best covered by contributory insurance. It is not considered to be a priority for Government-funded social assistance.

14.20 Education

Education is not compulsory in Vanuatu, though most people seek at least primary education for their children, and government provides schools. There are also government assisted schools run mainly by churches, and some local private schools run by communities. The government education budget is VUV 1.9 billion, which is around a quarter of total government spending. About 80 per cent of this is for salaries.

Primary education tuition for school years one to six is in principle free in Vanuatu government primary schools, with the Government paying the cost of teacher's salaries and some text books. Capital costs are often funded by donors. In practice local primary schools may require *donations* from parents, or undertake local fund raising activities, and there are other schooling costs which parents must pay such as uniforms or transport and some stationery costs.

More difficult for poor families is the cost of secondary education which is not free. There are a limited number of secondary schools, and their geographic dispersion means that most pupils must board away from their home villages to undertake secondary education. Consequently, they face costs for both tuition and board. Fees for junior secondary education may be in the range VUV 9,000 to 15,000 per term, with three terms per year. For senior secondary education the costs can be up to VUV 20,000 per term, though this varies. These costs exceed the monthly cash earnings of many households.

Most students now drop out between the end of primary schooling and the start of secondary schooling for both financial and exam entry reasons. Only about 1,000 out of 5,000 pass the secondary education admission examination. There are only a limited number of scholarships for very bright pupils, and no targeted government assistance for children from poor families such as fee concession schemes.

Government currently has plans to expand basic education to year 8. However, it is clear that the biggest problem for children from poor families is the cost of secondary education. This is cited by NGOs as a major financial hardship issue for families in Vanuatu. The desire for an *Education Plan* was one of the top three priorities in the informal economy survey.

For regular earners a contributory savings approach may be an option. For poor families the realistic option may be social assistance in the form of some type of scholarship or fee remission scheme.

14.21 Employment and training

The biggest economic problem facing Vanuatu is the shortage of jobs in the money economy for the rising numbers of school leavers, particularly those with only primary school education, and the shortage of skills on the part of many Ni-Vanuatu to take up the more skilled jobs actually emerging as tourism and trade develop.

In the end this is mainly an economic development problem, and the primary focus of the government on trying to build up cash earning opportunities reflects this situation.

Given fiscal limitations, there is not much possibility of using government funds to provide community employment schemes for unemployed school leavers. The more immediate priority is to staff existing gaps in health and education services. However, training is another issue.

Trade training is in an inadequate state in Vanuatu. Training supply is budget constrained, and the capacity of the existing centre is said to have deteriorated. Only a few trade skills are taught. Some NGOs provide training, as do a number of employers.

However, this seems to be an area where more activity and assistance is needed

14.22 Unemployment benefits

This option attracted a medium /low priority in the informal economy survey.

Unemployment benefits are not currently a realistic option for informal economy workers in Vanuatu. They may be an option for formal

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sector workers who lose their jobs, as a short term unemployment benefit could be funded from contributory premiums from those in regular employment.

However, the current priority for those without paid work would seem to be to encourage economic activity in both the cash and subsistence economies.

14.23 Housing

In villages traditional types of housing are used, built with impermanent *bush materials* available in the surroundings. For villages the main problems are lack of facilities such as a piped clean water supply, and sanitation issues. However, in general housing availability and cost is not a major problem in the villages, and families can build on traditional *custom* land.

In the towns people with adequate regular cash incomes live in European style houses built of permanent materials. However, poorer people are increasingly *squatting* on the outskirts of the towns in temporary shack type accommodation in areas where they have no land title or leases. The growing squatter problem is one of the unresolved poverty issues of Vanuatu.

The government has established a National Housing Corporation to address this issue. Its mandate is to assist with the housing needs of those earning VUV 10,000 to 80,000 per month. It was given an initial grant to provide loans funds to help low income people into housing. The interest rate of these loans was set at 10 per cent, then reduced to 7 per cent.

In practice the loan funds quickly ran out, and have not been topped up. There have also been problems in getting assisted people to pay their due loan repayments. Currently the main focus of the Corporation is on assisting low income people to secure a legal lease or title to the land they wish to build on. For funding they must use their own resources or borrow from the banks. However, the banks lend only to those who are good credit risks because they have adequate incomes, which tends to rule out most of the low income group.

The squatter problem is building up, and current government policies are not really addressing it. Hence government may have to consider other social assistance type options to deal with the

situation. Basic rental housing, or low interest loans or grants may be required.

An issue which need to be debated is whether all low income housing needs to be built to existing town planning standards, or whether construction types closer to village housing styles, but with more permanent materials should be permitted in designated areas on the edge of urban areas, with the main government focus being on ensuring adequate clean water supply and sanitation. There may also be options in terms of simple prefabricated buildings, and residents being trained in simple building techniques to upgrade their housing.

14.24 Other social problems

Economic hardship, the lack of jobs, and the erosion of traditional family patterns are creating new social problems in Vanuatu. Problems include unemployed young people congregating in the towns who are unwilling to return to village life; financial stress on many low income families, and marriage breakdowns and solo parenthood. The National Council of Women representative noted that infanticide and abortion have increased, and prostitution has started to grow. There are also family problems linked to excessive Kava drinking, and domestic violence.

Vanuatu is not yet at a stage of development where major programmes to provide direct cash social assistance to disadvantaged people and families can be realistically considered. However, there would seem to be some scope for a more limited approach of funding outreach programmes by NGOs to deal with some of the specific problems.

14.25 Summary

The economic situation of Vanuatu and the limited fiscal resources of its Government mean that only limited capacity exists to provide government-funded social assistance to the disadvantaged amongst its people. The main focus of governments for some time ahead is likely to be on economic development and on income generating opportunities for individuals. Further, within the social security framework, current priorities would seem to include converting VNPF entitlements into retirement pensions, improving worker's compensation cover, and possibly considering some form of increased Health Insurance cover.

However, social problems are building up in Vanuatu which will need to be addressed. For some of them a targeted social assistance approach is needed. Further, with the improved fiscal position of the Government, some capacity to address problems now exists.

Key issues would seem to be

- A permanent Disaster Relief Fund;
- Secondary education costs for children from low income families;
- Hospitalisation costs;
- Support services for the disabled;
- Housing assistance for low income people; and
- Training schemes for school leavers and drop-outs.

14.26 Social security provision in Vanuatu

Old age, disability and survivors

Program type	Provident Fund with Board. Minister of Finance supervises.
Coverage	Most employees over age 14 in regular employment. Exclusions for temporary workers and some others.
Funding	Insured person 6 per cent of earnings. Employer 6 per cent of payroll.
Benefits	Lump sum retirement benefits at age 55 of accumulated contributions plus interest. No age limit if emigrating. Similar permanent disability or survivor lump sum benefits Lump sum death grants.

Chapter 15 Employment Injury Schemes: Principles

15.1 Introduction

The purpose of this Chapter is to outline and elucidate the concepts, principles and practice in the field of worker's compensation insurance. The term *workmen's compensation*, later broadened into *worker's compensation* in order to include female workers, had generally been replaced by *Employment Injury* as used in relevant ILO Conventions and Recommendations approved in 1952 and 1964, but will be retained in this paper in view of its prevalence in Pacific Island countries.

Compensation for work-connected injuries is the oldest and most widespread form of social security protection. Some European countries enacted legislation in the 19th century (Germany 1884, UK 1897 and France 1898) whilst Australia's and New Zealand's first statutes on the subject were approved in 1902 and 1908 respectively and 1908 was the date for the first legislation enacted in Canada and the USA. Even so, due to the special characteristics of this branch of social security it can be said to be still evolving in many countries, including some which have had very lengthy experience of worker's compensation insurance. One reason for this is the extensive scope of protection since the benefits comprise medical care, and both short and long-term cash benefits as well as rehabilitation and there is the potential to attain increasingly higher standards in these areas. Another significant concern is to extend coverage as widely as possible throughout and beyond the formal sector of employment. There is also the possibility of supporting in various ways strategies and programmes for the prevention of occupational risks as an important aim in a system of worker's compensation protection.

The broad range of objectives that may be pursued has produced different national responses which will be outlined in this report in order to illustrate the range of policies and strategies that may be adopted in reforms of existing schemes. The importance of this type of protection is underlined by the fact that, despite the progress in technology and the means of preventing accidents and occupational diseases,

there is an unacceptable level of occupational accidents each year. ILO and WHO estimate an annual toll of about:

- 1.2 million work-related deaths;
- 250 million accidents;
- 160 million work-related diseases, and that 4 per cent of the world's GDP is lost through various direct and indirect costs of these workplace accidents.⁸⁰ Death, illness and injury on such a scale hinder efforts to accelerate social and economic progress.

It is important therefore to understand the theory and practice in this branch of social security, including the relevant ILO standards, as a basis for reviewing the existing schemes and deciding on the policies and strategies for strengthening the social security protection of the workforce against the consequences of occupational risks.

This paper consists of three parts:

- Concepts, principles and standards of worker's compensation protection;
- Structure of worker's compensation insurance; and
- Reform and development of worker's compensation schemes.

Additional sections contain a wide range of information on key features of both employer liability and social insurance schemes for this contingency in selected countries and a description of the Accident Compensation Insurance Scheme in Samoa. The successful implementation of a social insurance scheme in a Pacific Island country may be of special interest to other countries interested in improving the standards of protection in this branch of social security

⁸⁰ Report V (1) Recording and notification of occupational accidents and diseases and ILO list of occupational diseases. International Labour Conference, 90th Session 2002

15.2 Concepts, principles and standards of worker's compensation protection

15.2.1 World-wide trends to develop more effective systems

(i) Adoption of "no-fault" system

Countries with worker's compensation schemes in one form or another numbered 174 out of 177 in 2003 known to provide some form of social security.⁸¹ The contingency of employment injury has had precedence because of the pressing problems of providing compensation to the victims of work-connected accidents (this term is usually understood to include both accidents and occupational diseases) and their families, since such accidents occur in every country whatever the levels of industrialisation. Most countries have gone through stages in their search for more appropriate and effective systems. Common law actions on the issues of liabilities and negligence were not an effective method of gaining adequate and prompt payment of compensation, since the process could be slow and costly with no guarantee of favourable outcomes. Countries searched for more suitable systems particularly as they became more industrialised. The introduction of worker's compensation schemes was a significant step forward under the doctrine of employers' liability for no fault compensation (usually with no right to sue for damages).

National legislation established Worker's Compensation Schemes that came under administrative control by government bodies responsible for handling claims and supervising the system of determining liability and providing the prescribed benefits. The risk faced by employers is insurable and some countries stipulated that employers must insure against accidents so that payment of compensation would be guaranteed. Worker's compensation became an important branch for insurance companies. They determined the insurance premiums according to their assessment of the risks in the various industrial sectors and also their experience in paying out claims to individual employers. Obviously, this system gives incentives to employers to improve their safety and health records, or to conceal from the insurance carriers their more serious incidents by not claiming (and instead settling directly with

the injured worker or family) because of the impact on their insurance premiums. It should also be noted that, in practice in certain countries, commercial insurance has not always worked in favour of claimants due to efforts by some companies to maximise profits by rejecting and disputing claims seen to be borderline or not clearly within the scope of the insurance policies.

15.2.2 Conversion into social insurance systems

In general, the scope of the worker's compensation schemes has broadened over the years from the manual workers in heavy industry to cover all or most employees, including female workers. Some adopted the name of Worker's Compensation to indicate the wider coverage. Worker's compensation schemes have stood the test of time and have been refined and extended to deal with the many difficult problems in this field including changes in the nature of occupational risks to technological developments, and the increasing use of chemicals in industry and agriculture. However, some criticisms or weaknesses in the employer liability system can be noted:

- The legislation generally tends to define liability narrowly, to limit the medical and cash benefits and to exclude rehabilitation of disabled workers;
- Serious disputes over liability have to be resolved through the courts causing employer-worker confrontation and delays;
- Where employers have no insurance cover, the settlements in serious cases can lead to bankruptcies and closure of the businesses (and in some cases to pressures on workers and their dependants to accept lower sums);
- Most if not all schemes do not provide for pensions for serious permanent disablement and death cases as there is no mechanism for this and therefore pay out lump sums which are a much less effective replacement for the earnings lost and contrary to the concept of providing periodical payments in long-term contingencies found in the relevant ILO Conventions;⁸²
- Resistance to claims by insurance companies leading to delays and rejections

⁸¹ Social Security Systems throughout the World 2003, Social Security Administration, USA and ILO sources.

⁸² The main modern ILO Conventions are the Social Security (Minimum Standards) Convention (No.102 of 1952) and the Employment Injury Benefits Convention, (No. 121 of 1964).

or settlements lower than legal entitlements; and

- From the gender perspective, female workers have tended to be disproportionately excluded by virtue of occupation whilst the absence of pensions has reduced the protection afforded to dependants who are primarily female.

The solution adopted by many countries has been to convert the Worker's Compensation schemes to social insurance schemes. Some regional examples are included in Annex 1 Table 1 such as India (1948), Japan (1947), Malaysia (1969), Pakistan (1973), Samoa (1978) and Thailand (1972). This trend can be noted also amongst smaller countries such as those in the Caribbean, including Barbados (1966), Guyana (1969), Jamaica (1965), St. Kitts (1985), Saint Lucia (2000) and St. Vincent (1997); the last 3 countries have populations of 38,000, 147,000 and 116,000 respectively (2003), similar to some Pacific Island countries.⁸³ By establishing autonomous funds for this branch all funds collected are available for the purposes specified in the legislation unlike the situation in employer liability schemes where profits and overheads of insurance companies issuing worker's compensation policies are lost to the system. Over 70 per cent of the schemes worldwide utilise social insurance principles of pooling risks and finances for work-connected contingencies, in other words replacing individual employer liability by the collective approach making it possible to provide adequate health and income protection conforming to the internationally accepted standards in this field.

15.2.3 *Development of roles in accident prevention*

Concepts of worker's compensation insurance have evolved from the central function of providing health and income protection on a no-fault basis for manual workers most at risk to systems with much wider coverage and broader objectives. This trend has been made possible by conversion of employer liability schemes into social insurance systems operating pooled funds to promote high standards of health and income protection. Supporting or strengthening accident prevention is an obvious interest for worker's compensation schemes which have to bear the consequences of work-related injuries. The main

reason for emphasising prevention as a primary or important responsibility of the insurance system is that protecting workers against injury and death should take precedence over providing adequate compensation after they have suffered accidents or contracted occupational diseases, although this is highly important. Nevertheless, various national approaches can be noted from a basic and generally passive role consisting mainly of supplying information on accidents to another government body with the main responsibility for Occupational Safety and Health (OSH) to the other extreme proactive role of the actual integration of accident prevention with the administration of worker's compensation insurance, and positions at points between these basic and ultimate positions. This topic is considered in more detail in section 9 of this report.

15.2.4 *Extension to whole population*

New Zealand adopted a new approach by extending insurance cover to the whole population including school-children and non-working adults. The financing for insured persons is through insurance premiums paid by employers and the self-employed and, in addition, revenue is collected by taxes on petrol sales and on motor vehicle licences. Government subsidises the benefits for non-earners. The scheme provides cash and medical benefits but also emphasises accident prevention and rehabilitation not only for the development of work skills but also for social integration. Samoa also has extended coverage widely so that in addition to all employees the scheme also protects the whole population against the consequences of specified conveyance accidents (full details are given in Annex 2).

15.2.5 *Extension to 24 hours coverage*

Some countries have broadened the concept of worker's compensation protection by extending the coverage of the scheme to 24 hours and 7 days per week. For Pacific countries the best example is provided by Samoa which introduced this extended cover from September 2003 and began to collect a contribution from insured workers of 1 per cent of insurable earnings to finance it. The initial results in terms of claims for non-work-related accidents indicates the potential importance of this change in Samoa, as explained in detail in Annex 2.

⁸³ Social Security Programs throughout the World-the Americas 2003" (USA Social Security Administration)

15.2.6 Abolition of worker's compensation scheme

However, there are differing views on the relative importance of worker's compensation and countries decide what is suitable and desirable for them. The Netherlands is an example of a country which abolished the separate work injury branch in 1967. This was due to the belief that there is no justification for differentiating between contingencies such as general sickness and incapacity for work due to accidents at work or occupational diseases or disablement and death. In other words, the needs for health and income protection are the same regardless of the whether or not the cause is work connected. Since 1967 work-connected accidents in that country received exactly the same types of compensation as are provided under the general sickness and disability scheme.

15.3 Relevant ILO standards

ILO standards have had a considerable influence on the development of employment injury protection. The earliest ILO Conventions on this topic referred to *Workmen's Compensation* but this term was replaced by *Employment Injury* reflecting the extension of protection from the original target of manual workers in factories and mines to cover all types of workers and the expansion of female employment. The following list shows that the first Conventions were approved in 1921 and that a gradual evolution took place when the social security instruments were modernised in 1952 and 1964.

Table 15.1 ILO Conventions concerning employment injury

Convention No.12	Workmen's Compensation in Agriculture, 1921 (revised by Convention No.121)
Convention No.17	Workmen's Compensation for Accidents, 1925 (revised by Convention No.121)
Convention No.18	Workmen's Compensation for Occupational Diseases, 1925
Convention No.19	Equality of Treatment for National and Foreign Workers as regards Workmen's Compensation for Accidents, 1925
Convention No.42	Workmen's Compensation for Occupational Diseases, 1934 (revised by Convention No.121)
Convention No.102	Minimum Standards of Social Security, 1952
Convention No.121	Benefits in the Case of Employment Injury, 1964

The earlier Conventions were focussed on specific requirements in respect of accidents and diseases respectively but the later instruments Conventions 102 and 121 are broader in scope. Some of the main principles in the latter are:

- Employment injury protection must be financed by employers as a continuation of the responsibility for workplace safety;
- Coverage should be at least half of the national workforce, or 20 per cent of all residents;
- The benefits shall comprise medical care in respect of a morbid condition and cash benefits;
- Eligibility for benefits may not be made subject to the length of employment, the duration of insurance or the payment of contributions; however, a period of exposure may be prescribed for occupational diseases;
- Benefits shall be provided throughout the contingency except that in respect of incapacity for work the benefit need not be paid for the first 3 days in each case of suspension of earnings;
- Benefits for longer-term contingencies, such as permanent disability and survivorship, should be in the form of periodical payments payable throughout the contingency (with an exception for minor degrees of disablement for which lump-sums may be paid);
- Rates of such benefits shall be reviewed where following substantial changes in the general levels of earnings where these result from substantial changes in the cost of living; and
- Minimum standards for benefits (Convention No.102) include 50 per cent of lost wages for an eligible worker with a family (spouse and 2 children) and for a surviving spouse with 2 children, 40 per cent; these rates were increased to 50 and 60 per cent respectively by Convention No.121.

Convention No. 121 provides that countries shall define industrial accidents, including conditions under which commuting accident are considered, as industrial accidents. Social insurance schemes have tended to expand the scope of protection by including commuting accidents; for example, in Europe-Belgium, France, Germany, Greece and Spain, (but not Denmark or UK) and in Asia - India, Republic of Korea, Malaysia, Pakistan and Philippines, which may constitute the only real

risk faced by many workers. This may be somewhat controversial initially in some countries as departing from the concept of an accident at work that in theory is preventable by the employer and can be verified by him as having occurred nevertheless. Furthermore, complications are inevitable because of personal aspects such as deviations from the usual route for shopping, leaving and collecting children from school and other reasons. Nevertheless this extension of liability has benefited workers in less risky occupations and therefore has been important for female workers.

An important feature of Convention No.121 is Article 26 which requires actions on prevention of occupational risks and rehabilitation. On the latter, countries are required to provide rehabilitation services which are designed to prepare a disabled person wherever possible for the resumption of his previous activity or if this is not possible the most suitable alternative gainful employment, and to take measures to further the placement of disabled person in suitable employment. These two functions of support for prevention and for programmes of medical and vocational rehabilitation are important features of modern social security systems.

Initiatives to strengthen protection in respect of occupational diseases were taken in 2002 with the approval of the List of Occupational Diseases Recommendation, No.194. This is explained in section 7.5. The Conventions on migrant labour call for equality of treatment in regard to eligibility rules and benefit entitlement and for reciprocal agreements among governments to ensure that migrants can receive compensation either at home or abroad. The relevant Conventions are shown in Table 15.2.

Table 15.2 ILO social security conventions concerning migrant labour

Convention No.118	Equality of Treatment of Nationals and Non-Nationals under Social Security, 1962
Convention No.157	Establishment of an International System for the Maintenance of Rights in Social Security,1982
Convention No. 165	Social Security for Seafarers (Revised), 1987
Convention No.167	Safety and Health in Construction, 1988

ILO standards on occupational safety and health are of great importance. These are described in section 15.10 on accident prevention and rehabilitation.

15.4 Preferential standards for employment injury protection

Social security systems usually evolve over lengthy periods of time and the long duration of worker’s compensation insurance may well influence the policies adopted for particular branches of social security. In the case of protection against the effects of work-connected injuries, this was often the first branch of social security and was envisaged as a replacement for the systems of claiming compensation under common law. Since the new doctrine included no right to sue employers for compensation it may not be surprising that initially the rates of benefits were relatively high. The first schemes were for manual workers only or specific categories in the riskier occupations. This background resulted in special or preferential standards for this contingency compared with the provisions for equivalent contingencies of a non-occupational origin. The UK was an example of this with a separate system of industrial injuries and higher rates for all benefits, which in any case are not subject to any contribution conditions because of the principle that workers should have full protection from the beginning of the employment; however, the separate industrial injuries fund was abolished in 1975 and now the levels of short-term and survivor benefits are identical to those for other claimants, but disablement attracts special higher rates and allowances.

The original justifications in the UK for higher scales of benefit was that certain industries in which workers were exposed to high levels of risk (such as underground mining and logging) were vital to the national interest and needed generous compensation systems to attract sufficient numbers of workers. However, a counter argument that the most significant basis for compensation is not the cause but the consequences of the injuries has been found convincing in numerous countries. In other words, whether a worker is disabled for further employment by an accident at work or one unconnected with work his needs (for medical and cash benefits and rehabilitation) and those of his family are the same.

Nevertheless, differences in benefit levels remain in many schemes and the views of ILO Member countries are reflected in the standards adopted at various times. The following table shows the

prescribed rates for employment injury and for equivalent contingencies on the basis of standard beneficiaries.

Table 15.3 Rates of periodical cash benefits (percentages)

Contingency	Standard Beneficiary	Minimum Standard	Higher Standards	
			Convention	Recommendation
Employment Injury • Temporary incapacity • Permanent total disability • Survivorship	Man with wife and 2 children	50	60	66 ² / ₃
	Man with wife and 2 children	50	60	66 ² / ₃
	Widow with 2 children	40	50	n/a
Sickness	Man with wife and 2 children	45	60	66 ² / ₃
Invalidity	Man with wife and 2 children	40	50	60
Survivors	Widow with 2 children	40	45	55

The prescribed rates for temporary incapacity may be compared with those for sickness (non work-related) for which the minimum standards (Convention No.102 of 1952) are 50 and 45 per cent of previous earnings respectively, whilst the higher standards in later Conventions, Convention No.130 of 1969 for Sickness and Convention 121 of 1964 for Employment Injury are the same. The equivalent contingency of permanent total disability in the Employment Injury Branch is invalidity in the Pensions Branch for which the prescribed rates in Convention no 128 of 1967 are 10 percentage points lower for the minimum and higher standards and 6²/₃ points under the recommendations. In the case of survivorship the minimum standards are the same but the later conventions prescribe 5 points higher under employment injury.

Another reason why employment injury schemes may pay higher rates of long-term benefits in practice compared with pension schemes is because they do not impose contribution conditions and benefit entitlement is not related to length of insurance. For example, instead of accumulating pension rights under a formula based on average earnings and the number of years of contributions, which may mean that the full rate is payable only after at least 30 years, persons with brief periods of insurance under the employment injury schemes can qualify for full rate permanent disablement pensions, or their dependants can receive survivors pensions, based on the recent earnings at rates which are not related to the length of insurance.

15.5 Structure of worker's compensation schemes

15.5.1 Organisational framework

(i) Overview of functions

Worker's compensation schemes may be established as separate schemes or part of a broader social security scheme. Employer liability schemes necessarily are separate schemes established under the auspices of the Department or Ministry of Labour, or equivalent, which is responsible for the implementation of the legislation and therefore has a supervisory role. The authority has the duty to ensure compliance with the law which entails duties such as the following:

- Receipt of claims and determination of entitlement under the legislation for compensation for settlement by the employers or their insurance companies;
- Enforcement of the legislation and action on complaints by employees or on evidence of non-compliance by employers;
- Maintenance of statistics and preparation of reports on the experience of worker's compensation on an annual or periodical basis; and
- Drafting of amendments to the law to bring it up to date or revise its provisions.

Social insurance schemes register employers and their workforce and establish systems of collecting and recording contributions, processing claims and finance and accounting for

the employment injury insurance branch. These schemes may be administered by government departments or autonomous bodies supervised by boards appointed by the responsible Minister with either a tripartite or bipartite structure. The starting point is the receipt of claims supported by accident reports consisting of the victim's statement of the time, place and nature of the accident and the employers' report confirming the account and certifying that the accident took place as stated. The claim may be for medical care only, for medical care and cash benefits, or solely for cash benefits. The social security institution has to determine entitlement and ensure that benefits are provided as prescribed in the legislation. The essential first step is to determine whether or not the accident is compensable under the law according to the definition of the contingency in the legislation.

The following sub-sections deal with the subjects of coverage, definition of the contingency, medical care, cash benefits, rehabilitation, prevention of occupational risks and administration of worker's compensation schemes.

(ii) Administrative Organisation

In their approaches to the organisation of social security schemes, countries may aim primarily to gain the efficiency advantages of a comprehensive unified system in which all branches are administered together, or may prefer to maintain a number of separate schemes which can provide more specialised services and give full scope to bipartite or tripartite management. Historical practices may account for the current stage of organisation in some older schemes whilst developing countries may tend to start with a concept of a unified system. Stakeholders' views may be influential in this respect as they may wish to retain an existing system of governance of a worker's compensation scheme, in which they have gained expertise, rather than agree to it becoming a branch in a wider system under the supervision of a tripartite board. The technical differences between worker's compensation and other schemes, especially in the structure of the contribution systems, may influence decisions on maintaining a separate status. Where a number of separate schemes operate in a country they may agree on a unified system of collection of contributions through one institution for efficiency and cost reasons. France makes extensive use of joint contribution collection

agencies in its system comprising separate national funds for sickness, pensions, family allowances and unemployment insurance organisations under bipartite management.

Another factor is the organisation of government itself since in countries with a Federal constitution such as Australia and USA, in which worker's compensation is designated as a State subject resulting in separate legislation and differences between schemes in the country, whereas pensions are organised nationally to allow for migration of contributors between States. In Australia there is a national scheme for federal employees and USA also runs a federal workers scheme and a national scheme for miners (pneumoconiosis).

The UK, when reorganising social security after the Second World War chose to unify the separate schemes into one system and this may facilitate development of a fully coordinated system with interlocking benefits. A one-stop approach ensures that claimants who could have dual entitlement are provided with the appropriate benefit, which could arise when a claim for TDB is delayed due to queries about the eligibility of a particular accident and sickness benefit may be paid provisionally until the matter is resolved. Furthermore, overlapping entitlements such as to invalidity under a pension scheme or to permanent disablement benefits from a worker's compensation scheme can be resolved readily compared with the difficulties where two institutions and separate legislation are involved.

France chose to retain the separate schemes that come under tripartite supervision and prefer to specialise to improve governance and the standards of protection. Consequently, there are separate national pension, sickness and family allowance funds as well as unemployment organisations. Administering the work injury scheme by the Sickness Fund ensures coordination with the provision of disability and sickness benefits.

Countries such as India and Pakistan have grouped branches providing sickness, maternity, and employment injury benefit which facilitates the provision of medical care under the scheme. However, where the contributions are risk-rated the worker's compensation branch may be separately run even where it is grouped within the framework of the main social security

organization, as in Thailand. Another approach adopted in the Philippines when the employer liability scheme was converted into a social insurance system, was to collect the uniform contribution rate through the main social security institution, but to establish a separate body responsible for the policy and technical development of the worker's compensation scheme.

Japan is an example of a country which merged all social security programmes under one government Ministry after some decades of operating a comprehensive system through the Ministry of Health (pensions, social health insurance and family benefits) and the Ministry of Labour (worker's compensation and unemployment insurance). The Ministry of Health, Labour and Welfare was created in 2001 and became responsible for all branches. This unification calls for strengthened coordination amongst the different schemes in order to benefit from improved policy cohesion and across-the-board strategic planning.

Samoa established the Accident Compensation Scheme under the Ministry of Labour, which is also responsible for OSH programmes, separately from the Samoa National Provident Fund (SNPF) under the Ministry of Finance. Initially, SNPF collected contributions on behalf of the Accident Compensation Scheme but later the Board found it advisable to take control of this function.

Due to the constantly evolving situation of work-injury insurance some countries have encouraged specialisation in regard to the requirements of different sectors of agriculture and commerce. The prime example is Germany with 35 specialised accident insurance funds functioning under the supervision of employers and trade unions with acquired expert knowledge of all health and safety issues in their sectors and able to undertake constant efforts to reduce accidents and occupational diseases as well as to rehabilitate the disabled and provide compensation, as explained in section 9.

15.6 Coverage

15.6.1 Employees

The focus of the worker's compensation and employment injury schemes is on employees, and the main trends have been the gradual extension of coverage from manual workers in

higher-risk occupations to more and more categories sometimes, with maximum earnings limits for inclusion, until most social insurance schemes now cover most or all insured employees who come within the scope of the social security legislation. This can be seen in the examples in Table 15.5, such as China, India, Malaysia, Pakistan, Philippines and Thailand, and also is generally true of employer liability schemes, although some lag behind the overall trends and utilise features such as earnings limits (Kiribati, Singapore and Solomon Islands) or schedules listing covered occupations (India and Pakistan) to restrict liability (Table 15.6). The prospect is of further extensions of coverage in those countries which have yet to include the smaller enterprises in their schemes.

15.6.2 Other types of income-earners

New Zealand and Samoa stand out for their approach of protecting the whole population through one system. Other countries may extend coverage gradually from all employees to additional categories, one example being Germany which insures farmers, children attending nursery school, or school, students, persons helping at accident scenes and civil defence and emergency rescue workers. In other countries, whilst employees are the main target, the question arises about the risks faced by other categories of income earners. In general, obstacles to protecting own-account and self-employed workers for this contingency include:

- the absence of the control measure of employers' reports and certificates that accidents took place in particular circumstances as a basis for determining employment injury claims, which leads to the possibility that the self-employed could suffer non-employment accidents and claim they had occurred during working hours and met requirements for medical and disablement benefits;
- the immediate risks to the employment injury scheme as there are no contribution conditions in this branch;
- the relatively high benefit rates usually payable in this branch and the long-term pension liabilities arising from permanent disablement and death cases; and
- The possibility of adverse selection where it is difficult to enforce the coverage to all types of self-employed and those at severe

risk constitute a disproportionate proportion of those insured.

Another issue is that the standard schedule of disablement ratings of loss of earnings capacity is appropriate to employees and may not be applicable to some categories of the self-employed since the prescribed earnings loss could be much less in practice in some situations due to the disabled persons' control over working practices and possible support from family members. For example, a small business such as a shop or workshop could function much as before with little or no earnings loss if the partially disabled self-employed person is able to delegate more functions to family members or his workforce.

On the other hand, the fact remains that many self-employed persons are entirely dependent upon their own manual labour and they, plus family workers in some instances, could suffer greater economic losses than employees as a result of serious employment accidents. Other categories who can continue in charge of income-earning activities with some restrictions may still be badly affected financially by the physical incapacity due to the accident. Furthermore, protection against the consequences of serious commuting accidents is desirable for all types of persons dependent on their earnings. These various considerations have lead some countries to require self-employed persons to participate in worker's compensation schemes or to permit voluntary coverage (Germany) which is sometimes only of specified categories of smaller enterprises in certain sectors. However, developing countries generally do not include self-employed persons in their social security schemes or limit their inclusion to certain branches such as pensions of social health insurance schemes.

Examples of the broader scope of coverage (Table 15.9) are provided by Japan and the Republic of South Korea which allow voluntary coverage of the agricultural, fishery and forestry sectors with less than 5 workers and South Korea extends this to small-scale construction projects, domestic employees and the self-employed. Mongolia provides the option of voluntary cover for self-employed persons in view of the large numbers of cattle breeders who are dependent on their labour and face risks in their daily activities. In Europe, examples of compulsory coverage of self-employed persons and certain

other groups are provided by Austria (self-employed), Denmark (self-employed in fishing and shipping), Germany (farmers), Italy (non-manual workers in dangerous work, self-employed in agriculture and domestic workers) and Portugal (the self-employed are compulsorily insured for employment injuries and may opt also for insurance against occupational diseases). Finland allows self-employed persons to join voluntarily.

15.7 Definitions of Employment Injury

15.7.1 General approaches

The definition of the contingency is a key feature in this branch of insurance. There may be significant differences in approach between worker's compensation schemes and employment injury insurance systems due to variations in their objectives. Whilst both types of scheme are designed to compensate workers and dependants for the consequences of work-connected accidents, usually worker's compensation schemes tend to be restrictive in order to limit employer liability, whereas employment injury schemes aim to compensate all cases of true employment injuries. The basic definition of an employment injury is the concept of a personal injury by accident arising out of and in the course of the employment, subject to the exclusion of self inflicted injuries and those caused by the serious and wilful misconduct of the workman concerned. Social insurance schemes often expand the basic definition of a personal injury arising out of and in the course of the employment by presumptions, such as that accidents *arising out of also occurred in the course of the employment, unless the contrary is proved*. It is also usual to specify that accidents occurring in certain specific circumstances should be treated as employment injuries.

15.7.2 National examples

Table 15.7 contains some national examples of the main definitions in use in 7 European countries and two from developing countries in Asia. These emphasise the essential element of a work connection and that all such occurrences are employment injuries. For the smooth working of the scheme its liability must be clearly defined in order to facilitate claims and avoid doubt in the interests of the insured workers. Whilst in general accidents occurring

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during normal working hours in the employer's establishment are accepted as coming within the definition of an employment injury, unless evidence is produced to the contrary, favourable presumptions are needed because of the nature of some claims for borderline situations, such as when workers leave the usual workplace and suffer accidents, and questions arise about whether the absence was authorised and was for the purposes of the employer's business. Some national examples illustrate this point.

The social insurance scheme in Malaysia, which defines the contingency as a personal injury to an employee caused by accident or an occupational disease arising out of and in the course of his employment, provides examples of the presumptions which may be incorporated in the law to remove any doubt in certain situations. These include:

- (a) A general presumption as to an accident arising in the course of employment.

For the purposes of this Act, an accident arising in the course of an insured person's employment shall be presumed, in the absence of evidence to the contrary, also to have arisen out of that employment.

- (b) Accidents happening while meeting emergency.

An accident happening to an insured person in or about any premises at which he is for the time being employed for the purpose of his employer's trade or business, profession, vocation, occupation or calling shall be deemed to arise out of and in the course of employment if it happens while he is taking steps, on an actual or supposed emergency at those premises, to rescue, succour or protect persons who are, or are thought to be or possibly to be, injured or imperilled, or to avert or minimise damage to property.

A similar liberal approach is possible in employer liability schemes and one example is the legislation in Kiribati. The Workmen's Compensation Ordinance, the main defects of which are found in the system of benefits and lack of provisions on compulsory insurance, contains liberal definitions of accidents clearly aiming to compensate employees for all accidents which could reasonably be considered

as arising out of the employment. Accidents whilst travelling to and from work can be included in certain circumstances. Seamen employed in Kiribati ships are covered in respect of accidents which occur in Kiribati and elsewhere or on board or otherwise. There is no jurisdiction in the case of Kiribati seamen employed in non-Kiribati ships.

Brunei's Employer Liability scheme provides another example. Under the legislation, a worker is entitled to compensation in respect of a personal injury by accident arising out of and in the course of the employment. This standard definition is broadened by a series of provisions as follows:

- An accident arising in the course of the employment is deemed, in the absence of evidence to the contrary, also to have arisen out of that employment;
- Accidents happening whilst travelling to or from his place of work whilst with the express or implied permission of his employer using transport operated by or on behalf of the employer;
- Accidents happening whilst attempting to rescue persons in an emergency or to protect property;
- Accidents occurring whilst acting in contravention of orders or rules if the accident would still have happened and the acts were for the purposes of the employers' trade or business; and
- Accidents outside Brunei where the accident would have been compensable if it had occurred in Brunei.

The Brunei legislation contains presumptions in the workers' favour where they are diagnosed as suffering from an occupational disease as employment within 30 days of the diagnosis in a specified occupation is taken as proof of having contracted the disease through the employment. Entitlement is also accepted where the worker contracts a scheduled disease within 12 months of ceasing to be employed in a specified occupation.

15.7.3 ILO Instruments

ILO Conventions do not contain guidance on this key definition and the Employment Injury Benefits Convention No.121 of 1964 only specifies that commuting accidents should be

included under prescribed conditions, but ILO Recommendation No. 121 provides that the following shall be treated as *employment injuries*.

- “(a) accidents, regardless of their cause, sustained during working hours at or near the place of work or at any place where the worker would not have been except for his employment;
- (b) accidents sustained within reasonable periods before and after working hours in connection with transporting, cleaning, preparing, securing, conserving, storing and packing work tools or clothes;
- (c) accidents sustained while on the direct way between the place of work and:
 - (i) the employee’s principal or secondary residence; or
 - (ii) the place where the employee usually takes his meals; or
 - (iii) the place where he usually receives his remuneration.”

Commuting accidents schemes may constitute a significant proportion of claims due to the traffic congestion prevailing in urban centres where the schemes cover the working population. More details are given in section 7.4.

The basic element of *a personal injury by accident arising out of and in the course of employment* can be supplemented by the general presumptions in the preceding paragraph to ensure that borderline cases are within the scope of the law. This is done to assist genuine cases but also simplifies the adjudication processes. Employment injury schemes which do not include traffic accidents, because of the difficulty of applying clear-cut principles on employment injuries to a wide range of cases occurring outside the workplace and the employers’ jurisdiction, may make an exception for accidents involving workers travelling in the employers’ transport, as these are within his responsibility and can be verified. This would cover many workers where employers regularly transport groups of workers to and from the place of employment whether this is a construction site or an office.

A model definition of an employment injury, which includes both accidents and occupational diseases, therefore, is:

Employment injury means a personal injury by accident caused on or after the Appointed Day arising out of and in the course of employment. For the purposes of these Regulations an accident arising in the course of an employed person’s employment shall be deemed, in the absence of evidence to the contrary, to have arisen out of the employment.

Protocol 2002 to the Occupational Safety and Health Convention (No. 155 of 1981) provides the following definitions.

“Occupational accident: an occurrence arising out of or in the course of work which results in fatal or non-fatal injury”

“Occupational disease: any disease contracted as a result of an exposure to risk factors arising from work activity”

These definitions differentiate a work-related accident from the general concept of loss of earnings capacity from invalidity which should exclude cases falling under employment injury insurance. If the claim for employment injury benefits is rejected as not coming within the definition, it may, where the condition causes sufficient loss of earnings capacity and is permanent, qualify under the provisions on invalidity; however, this would be conditional also on the payment of sufficient contributions

15.7.4 Accidents whilst travelling

As regards commuting, the extension to risks involved in travelling to and from work is a departure from the concept of a workplace the safety of which is an employer’s responsibility; but this has become accepted since for many employees the main dangers occur during the daily journey from home to work and back again. However, this is inevitably complicated when employees deviate from the direct route for personal reasons such as taking children to or collecting them from school, shopping or visits to a doctor. The basic question arises whether activities of this nature have severed the connection between the journey and work. The main requirements are that the journey is on the normal or direct route and that any such deviations are justified.

Even so this type of case may call for additional administrative efforts due to the range of personal circumstances which may occur and

lead to borderline cases and difficult decisions. Police reports may be required to verify that accidents occurred at the time and place stated by claimants. Usually established schemes include commuting accidents, but not invariably, and some newer schemes may defer introducing this type of cover until there is sufficient administrative experience to cope with the difficult cases which occur under these provisions. Commuting accidents are widely covered in the older schemes in Europe (but not or not usually in Denmark, Norway, Italy, and the UK) the following examples of a typical set of provisions on this type of accident are:

- “1) An accident happening to an insured person shall be deemed to arise out of and in the course of his employment if the accident happens while the insured person:
- (a) Is travelling on a route between his place of residence or stay and his place of work;
 - (b) Is travelling on a journey made for any reason which is directly connected to his employment, or
 - (c) Is travelling on a journey between his place of work and the place where he takes his meal during any authorised recess.
- (2) If the accident under subsection (1) occurs during any interruption of, or deviation from, the insured person’s journey made for any of the purposes stipulated in the same subsection, the accident shall not be deemed to arise out of and in the course of his employment.”

Another approach found in some schemes which have not legislated for general commuting accidents is to provide for only for accidents occurring when employer’s transport is used.

“An accident happening while a person is, with express or implied permission of his employer, travelling as a passenger in any vehicle to or from his place or work shall, although he is under no obligation to his employer to travel in any vehicle, be deemed to arise out of and in the course of his employment if:

- (a) the accident would have been deemed so to have arisen had he been under such an obligation; and

- (b) at the time of the accident the vehicle was being operated by or on behalf of his employer or some other person by whom it is provided in pursuance of arrangements made with the employer, and was not being operated in the ordinary course of a public transport service.

In the section references to a vehicle includes reference to a ship, vessel or aircraft.”

15.7.5 Prescribed occupational diseases

Under the Convention No.121 Benefits in the Case of Employment Injury, 1964 an occupational disease may be defined in one of three ways:

- (a) by prescribing a list of diseases comprising at least those listed in Schedule 1 to the Convention (list system);
- (b) by stipulating a general definition broad enough to cover at least the those diseases enumerated in Schedule 1 to the Convention (general definition system); and
- (c) by prescribing a list of diseases in conformity with Schedule 1 and to complement it by a general definition (mixed system).

This convention contains a list of 15 diseases which was increased to 29 in 1980. The mixed system is in wide use in European countries (for example, Denmark, Germany, Italy, Norway, Finland and Portugal.) The essence of the protection afforded to workers under employment injury schemes who may contract any of the diseases listed in a Schedule to the Act, is automatic access to the medical and cash benefits under provisions stating that where an employee is suffering from a disease included in the list of occupational diseases it shall be presumed, unless the contrary is proven, to be due to the nature of his employment when he was employed in the relevant prescribed occupation at the time when or for the appropriate period before he developed the disease. Adding diseases to the official list is permitted where this is permitted under the legislation (mixed system), but may be difficult in countries that do not have well-developed

occupational health services and research activities in this field, or at least contact with international organisations able to advise on such issues. The fact that Japan in 1996 added 22 chemicals to the list of occupational diseases caused by chemicals as a result of careful monitoring of effects of substances used in workplaces suggests that other countries may face the same risks but are not yet able to assess this for worker's compensation insurance purposes.

Because of the difficulty that workers may face in proving that a disease is directly attributable to the victim's occupation, Recommendation 121 accompanying Convention No.121 provides that *unless proof to the contrary is brought there should be a presumption of the occupational origin of such diseases*

Industrialised countries usually have compiled lengthy lists of occupational diseases (Ireland 56, Germany 67 and France 98) but in many developing countries the legislation identifies about the same number as are listed in ILO Convention No.121 (for example, Malaysia 27) and very few occupational diseases are reported in practice due to weaknesses in diagnostic procedures and the state of development of occupational health services. Nevertheless, they do occur for example in industries with widespread use of chemicals or excessive dust problems or noise. In numerous countries the technology for detecting and treating such diseases lags far behind the trends for increasing use of dangerous substances in industrial, including agro-industrial, processes. Countries need to be vigilant and either engage in research themselves or obtain the results of appropriate research for use in protecting the workers concerned from contracting such diseases in the first place, rather than merely compensating them or their survivors if and when workers are diagnosed as suffering from these diseases.

Countries that have drawn up a list of diseases for compensation and notification purposes, although lists differ in content and may not always contain minimum periods of exposure to the risk, include China, Finland, France, Greece, Republic of Korea, Malaysia, Myanmar, New Zealand, the Philippines, the Russian Federation and the UK. Countries that use a general definition may accept any disease considered to be occupational and related to work; examples are Australia, Sweden and the USA where

general definitions of occupational diseases are provided by law. In Italy and Sweden recognition of such diseases is open-ended and not subject to severe restrictions.

A dual approach is followed in some other countries such as Germany and Switzerland which use an official list and also accept other diseases for which there is strong evidence of their occupational origin. In Japan occupational diseases are listed under 9 broad categories related to the agent or mechanism responsible for the disease, which is open-ended as additions caused by an agent or mechanism may be made. Countries that have developed this mixed system include Austria, Canada, Denmark, Finland, Islamic Republic of Iran, Mexico, Thailand and the USA (not all States)

After wide ranging discussions in recent years amongst the social partners on the subject of maintaining a sufficiently broad scope of occupational disease protection, and to respond to urgent needs to expand the list and simplify procedures for updating it (for example, in relation to serious concerns about SARS and avian flu) the ILO Conference in 2002 approved the List of Occupational Diseases Recommendation No.194. This prescribes that national lists of occupational diseases should be drawn up in consultation with representative organisations of employers and workers respectively, which should comprise at least the diseases listed in the ILO Convention No.121, as amended in 1980, the list annexed to the Recommendation, and a section entitled *Suspected occupational diseases*.

The annexed list stipulates categories or types of diseases; for example:

- (a) diseases caused by chemical, physical and biological agents lists 40 types,
- (b) diseases caused by target organ systems diseases names 14 such diseases,
- (c) occupational cancer lists 15 categories, and
- (d) other diseases and miners' nystagmus (rapid eye movements, sleepiness).

15.8 Benefits

An employee unable to work due to an employment injury has two main priorities; ready access to adequate and affordable medical care and income replacement benefits for the duration of the absence. The social security benefits in this field range over

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- comprehensive medical care for injured workers or those incapacitated due to an occupational disease; and
- income replacement benefits for temporary incapacity, permanent disablement, and survivorship.

15.8.1 *Medical care*

ILO Conventions and most national legislation in this branch of social insurance accord first importance to medical care. The Social Security (Minimum Standards) Convention (No.102 of 1952) prescribes in Article 34 comprehensive medical care comprising:

- (a) general practitioner and specialist in patient care and outpatient care, including domiciliary visiting;
- (b) dental care;
- (c) nursing care at home or in hospital or other medical institutions;
- (d) maintenance in hospitals, convalescent homes, sanatoria or other medical institutions;
- (e) dental, pharmaceutical and other medical or surgical supplies, including prosthetic appliances, kept in repair, and eyeglasses; and
- (f) the care furnished by members of such other professions as may at any time be legally recognized as allied to the medical profession, under the supervision of a medical or dental practitioner.

The concept is of the scheme assuming responsibility for maintaining, restoring or improving the health of the person protected and his ability to work and to attend to his personal needs (Article 34 of the Social Security (Minimum Standards) Convention, No. 102 of 1952). This Convention provides that where a country has made a declaration under Article 3 that its economy and medical facilities are insufficiently developed it may be granted a temporary exception from the provisions in Article 34 paragraph 2 and the medical care under the employment injury branch should include at least:

- general practitioner care, including domiciliary visiting;
- specialist care at hospitals for in-patients and out-patients, and such specialist care as may be available outside hospitals;

- essential pharmaceutical supplies as prescribed; and
- hospitalization where necessary.

This list together with the provision of artificial limbs, when prescribed by a medical board, constitute the minimum range of medical benefits to be provided under an employment injury scheme.

The Social Security (Minimum Standards) Convention and the Employment Injury Benefits Convention, (No. 121 of 1964) stipulate the principle that the medical benefits shall be provided throughout the contingency and free of charge to the insured workers who have suffered an accident or are diagnosed as ill due to an occupational disease. The Employment Injury Benefits Convention (No.121 of 1964) contains an additional provision of emergency treatment at the place of work of persons sustaining a work-related accident.

Table 15.8 shows that in general the selected social insurance schemes provide a wide range of medical care including surgery and hospitalisation which extends to the provision of artificial limbs and appliances with no cost or time limits at no charge to the injured persons. New Zealand requires a minimum payment but provides very extensive rehabilitation services, and Samoa allows overseas medical treatment up to a maximum of WST 15,000, whilst Thailand is an exception in that it imposes a cost limit of THB 35,000 (about USD 920 at the current rate of exchange) and this can be increased to THB 50,000 in certain circumstances.

Employer Liability schemes, as shown in Table 15.9, tend to provide more restricted care which may be through public health services in some countries such as Hong Kong, Sri Lanka and Singapore. However, the legislation in Kiribati makes no provision for medical care presumably due to the fact that it was drawn up when public health services were expected to provide full medical care to all citizens.

Under the social insurance schemes, only accredited institutions or medical or rehabilitation practitioners may provide medical care under the employment injury scheme. They are paid directly by the social insurance authorities, except in cases of emergency or other situations where reimbursement may be allowed by regulations. In any case, non-accredited

providers should be paid only for emergency services and only for the duration of such emergency.

15.8.2 Cash Benefits

(i) *Temporary disablement benefits (TDB)*

The attending doctor should issue a medical certificate stating the duration of absence from work which is the basis for assessing entitlement to TDB. In general, absences may be relatively short-lived but a proportion require prolonged treatment which may finally determine that the victim has suffered a degree of permanent disablement. Consequently, the main features of TDB should be:

- no contribution conditions to apply;
- the rate should be related to recent earnings and set at a level which provides adequate income support but leaves incentives for return to work as soon as medically advisable; and
- duration should be flexible enough for the various types of case which occur.

In addition, it is to be decided whether to invoke the provisions in relevant ILO Conventions⁸⁴ which permit non-payment of benefit for the first 3 days termed *waiting days*.

Although there is no standard pattern, it is evident from the examples in Table 15.8 that a number of countries provide quite high rates of TDB (for example, 80 per cent of recent earnings in Japan, Malaysia and New Zealand, 90 per cent in the Philippines and 100 per cent in China). Duration is extensive to allow for the serious cases for which the final medical assessment cannot be made for periods of months or even years. At some point if the beneficiary is still incapacitated for work a determination of permanent disability has to be made by a medical board, even if it is provisional. However, some countries consider that it is inadvisable to award pensions prematurely because it is difficult to interest disabled persons in rehabilitation if they feel that restoring work capacity will have negative impact on their entitlement. Table 15.9, shows a broadly similar pattern in the employer liability schemes on rates and duration.

⁸⁴ The Social Security (Minimum Standards) Convention, (No. 102 of 1952) and the Employment Injury Benefits Convention (No. 121 of 1964).

The worker's compensation benefits may be payable after up to 3 waiting days to avoid the expense of small claims as well as to deter possible malingering. Some minor cases do occur involving just 2 or 3 days absence from work and some medical treatment and these do not qualify for compensation under the worker's compensation scheme on the assumption that the loss of wages is not likely to cause hardship. However, if after excluding the 3 days from the first benefit payments, the incapacity continues for some time, the beneficiary has received only a proportion of his wages and it is possible that the loss of the first 3 days is more keenly felt. Also, if the insured person returns to work after medical certification that he has recovered, but he suffers a relapse after a few weeks, the question of again applying the waiting days has to be resolved. The usual practice in some of the social insurance schemes which have adopted the *waiting days* principle is:

- where the incapacity lasts several days then pay the 3 days retrospectively; and
- separate periods of TDB for the relevant accident within 8 weeks of each other are considered to be linked for the purpose of not applying the waiting days rules on the second occasion.

(ii) *Permanent disablement benefits*

Rating and duration of the PDB awards.

Assessments of permanent disablement are made by medical boards established by the worker's compensation schemes. They are guided by the schedule of disablements specifying the degrees of loss of earnings capacity attached to the legislation. The decision also states whether the condition is truly permanent or should be reviewed after a certain period, such as 2 years. In the latter case, the award would be for 2 years and the medical board would review the case in time to decide about the continuation of the award and whether this should be at the same or a different rate. Otherwise, the assessment may be for life.

Most of such decisions are on relatively minor conditions with ratings below 10 per cent but all types of case occur over time from 1 to 100 per cent. The system of benefit rates is usually based on the level stipulated for permanent total disablement (PTD) with lower percentages entitled to that percentage of the PTD rate. Therefore if 70 per cent of recent earnings is payable for 100 per cent disablement (PTD), the

amount for permanent partial disablement (PPD) of 50 per cent would be 35 per cent of recent earnings. Where the medical board certifies that recipients of PTD require the constant help or attendance of another person, the benefit will be increased by a constant attendance allowance such 25 per cent of the PTD rate.

The key issue is whether the benefit for a long-term contingency is in the form of a pension, as prescribed in ILO Conventions such as Convention Nos. 102 and 121 as a more effective method of income protection, or a lump-sum. Whilst social insurance schemes usually provide pensions protection, employer liability schemes pay lump-sums, as is evident from a review of Table 15.9; pensions are payable in China, India, Japan, Malaysia, Pakistan, Philippines, and Thailand (but in the latter case these pensions are not payable for life), whilst New Zealand and Samoa are the exception as they provide lump-sums, and all of the employer liability schemes pay the benefit in this manner. Countries providing pensions undertake to maintain their value through periodical increases. Since the usual outcome of lump-sum payments is that they are consumed relatively quickly the persons concerned are left without adequate support and may become dependent on family support or social assistance.

Commutation of low level pensions. An exception to the principle of pensions for permanent disablement is made in the case of slight permanent disability where the benefits may be paid in lump sums, calculated on actuarial principles. Lump-sum grants for the pensions below a level such as 20 to 30 per cent are calculated according to the duration of the assessment where this is provisional or for life, in which case the payment is determined according to the actuarial tables giving the present value of the benefits.

(iii) *Benefits in respect of deaths from an employment injury*

In the case of death from an employment injury, funeral benefits are paid in the form of one time grants and survivors are provided with pensions in social insurance schemes and lump-sums under employer liability legislation. The basis for benefit is usually the amount or entitlement of PTD payable to the deceased or to which he/she would have been entitled had a claim been made to PTD. Issues arise on the eligibility of dependant relatives and schemes necessarily

design such benefits in accordance with family structures. Whilst widows are accepted as a priority beneficiary some schemes restrict widowers rights by imposing additional conditions such as that he is disabled and unable to work. Children may be entitled up to the age 18, or 21 if still undergoing full time education, usually with no age limit for disabled children. Parents are included in some schemes only if the prime beneficiaries have not received the full entitlement of 100 per cent of the amount of PTD the deceased was receiving or would have received if this had been claimed prior to death. The widow(er)s may receive 40-50 per cent and children 20-30 per cent and such awards change as children reach the maximum age allowing other persons to qualify.

Examples of survivor's pensions in Table 15.8 show variations in the actual rates allocated to spouses and children within the framework of the distribution of the PTD rate. However, the schemes in the Philippines, Samoa and Thailand also involve rights to lump-sums and Thailand limits the duration of the survivors pensions to 8 years. All of employer liability schemes included in Table 15.5 pay lump-sums only and this is the pattern found in such schemes elsewhere due to lack of funding for pensions. This issue is of special concern to widows and children who predominate amongst survivors for whom a guaranteed regular payment may ensure a reasonable standard of living and allow children to remain at school.

15.9 Financing of the Scheme

15.9.1 *Financial systems*

Worker's compensation schemes require two financial systems. For the *medical and short-term cash benefits (TDB)* the annual assessment or *pay-as-you-go* financial system is appropriate. Under this system the resources raised year by year from contributions and other sources balance the expected costs year by year. In practice, a contingency reserve is needed against unforeseen changes in expenditures or falls in income. This may be 6 months average benefit expenditure for TDB and medical care.

For *long term benefits*, the principle is full funding of liabilities in the year in which these are incurred through the system of constituent capitals. This means that funding of all future payments for disablement pensions and grants,

funeral grants and dependant pensions awarded in a year is secured in that year; this is a different approach to the financing of old-age pension schemes and ensures that these costs are borne by the currently contributing employers and are not passed on to future contributors. Consequently, this system takes into account the future costs of pensions and lump-sum payments expected, according to projections, to be awarded each year.

Another responsibility of the scheme is to increase pensions periodically in order to maintain their value. These requirements are taken into account in the actuarial valuation.

An employment injury insurance fund should be established with contingency and technical reserves to receive all income from employment injury contributions and investments, and to finance expenditures on employment injury benefits and administration. An actuarial valuation of the scheme should be made at the stage at the original design stage and at regular intervals in order to assess the actual experience and adjust projections for the future.

15.9.2 Contribution systems

Since employers are liable for such compensation they are required to finance workers compensation schemes in almost all countries (however, Samoa introduced employee contributions of 1 per cent of earnings in 2003) but the question arising is whether these employer premiums should be uniform, as in other branches, or risk-rated as in private insurance. The main argument for uniform rates is that in comprehensive schemes covering a wide range of employees for several or all nine social security contingencies, the risks should be reasonably well balanced over time, and, furthermore, that risk-rating may not be a reliable indication of future experience and cannot easily be applied to smaller firms. The proponents of risk-rating contend that this system provides strong incentives for strengthening safety measures and accident prevention, and also avoids the price distortion which results from low-risk industries subsidising high-risk industries.

Amongst social security schemes opinion seems to be sharply divided as those collecting uniform contributions argue that the issue of prevention and occupational safety and health is the

responsibility of another part of the government machine and it is enough to supply information and statistics on accidents to these authorities whilst the schemes maintaining records of accidents and claims in order to apply experience rating at 3 yearly intervals point to evidence of the impact of this system. Table 15.5 contains information on 13 schemes of which 6 use uniform rates (India, Malaysia, Philippines Samoa and Vietnam) and 7 prefer differential rates (China, Indonesia, Mongolia, New Zealand, South Korea and Thailand).

The risk and experience rating system is practiced by insurance companies active in worker's compensation insurance which typically could charge approximately 0.20 per cent of payroll at the lowest risk level for activities such as office administration and over 10 per cent for those enterprises in sectors such as logging and construction. The dilemma is that the alternative would be to propose levying uniform contribution rates such as 1 per cent of earnings, in order to raise adequate resources, which would involve enterprises in less risky sectors paying higher contribution rates than under private insurance and those in the more risky sectors paying less. This would be resisted by employers in general and is contrary to strategies to provide incentives to employers to vigorously pursue accident reduction.

The system uses industry codes to determine the basic contribution for each enterprise according to the industrial sector it belongs to. For example, Thailand has listed 131 such codes. The industry codes should reflect the average experience of all enterprises in an industrial category and the second element is the merit or experience rate of individual enterprises which is determined over a 3 year period and applied in year 5 and may result in a reduction, increase or no change in the contributions assessment. A description of the Japanese experience rated system is given in the following box⁸⁵.

⁸⁵ Box 1 describing the Japanese system was contributed by Mr. Kenichi Hirose Social Protection Specialist, ILO Sub-regional Office for South-East Asia and the Pacific, Manila.

Box 15.1 An experience-based premium system in the Workers' Compensation in Japan

*In Japan, the premium of the Workers' Accident Compensation Insurance is set by type of industry. Currently, the premium of workers' compensation varies from 0.5% to 12.9% in 51 industry categories. The premium is reviewed every 3 years based on the performance during the preceding 3-year period. To provide employers with incentives for accident prevention, an experience-based system (called the merit system) is implemented. Under this system, the premium of an individual establishment can be adjusted upwards/downwards within the range of 40%. Those qualified for the merit system are medium and large sized enterprises (e.g. establishments with more than 100 workers, or construction projects whose value is more than JPY 120 million – about USD 1.1 million). Specifically, for each establishment, the following **balance ratio** is computed:*

$$\text{Balance ratio} = \frac{\text{(benefit payment during the last 3 years)}}{\text{(premium during the same period)}}$$

If this balance ratio is less than 0.75, then the premium (set by type of industry) is gradually reduced by up to 40 per cent. Contrary, if this ratio is more than 0.85, then the premium is increased by up to 40 per cent. This adjustment is applied to the premium in respect of work-related benefits. (A uniform premium is applied in respect of the commutation accidents, welfare schemes and administrative costs.) The adjusted premium is applied for the next fiscal year (e.g. if the period of balance ratio is 2002-2004, then the adjusted premium is applied for 2006). Moreover, small and medium sized enterprises which take certain measures on occupational safety and health can apply for the special merit system, which can adjust the premium within the range of 45 per cent.

In practice, only a limited percentage of enterprises apply for the merit system. Statistics in 2002 show that 87,428 (or 4.4 per cent) of 1,992,101 establishments applied for the merit system. Of these, 72,698 establishments (83.2 per cent) had the premiums reduced, 12,949 (14.8 per cent) had the premiums increased, and 1,781 (2.0 per cent) had the premiums unchanged. In both cases where the premiums changed, about half attained the maximum adjustment rate at 40 per cent.

Not all social security schemes have the administrative capacity to maintain detailed records and assess the claims experience of each employer. However, Thailand is an example of a developing country which launched its social insurance scheme for employment injuries in 1975 with the experience rating system and has reduced the contribution rates from over 4 per cent to between 0.2 to 2 per cent (recently reduced to 1 per cent for economic reasons). In certain other countries for example, Mongolia, the risk categories have been simplified into 3 for which the contribution rates are 1, 2 and 3 per cent respectively. This is intended as a broader risk rating system which is easier to administer whilst still providing penalties and incentives with the aim of reducing accident frequencies.

15.10 Accident prevention and rehabilitation

15.10.1 Accident prevention

Whilst worker's compensation schemes providing medical care and income protection after work-related accidents occur may wish to support and encourage accident prevention for such reasons as:

- prevention is a better service to insured persons than compensating them after the event;
- fewer work interruptions contribute to higher productivity, and
- scheme costs are reduced.

With respect to the prevention, there are about 70 ILO Conventions and Recommendations dealing with Occupational Safety and Health (OSH) matters. The following is a list of the major Conventions on OSH.

Table 15.4 ILO Conventions concerning occupational safety and health

Convention No.155	Occupational Safety and Health Convention, 1981
Convention No.161	Occupational Health Services Convention, 1985
Convention No.170	Chemicals Convention, 1990
Convention No.174	Prevention of Major Industrial Accidents Convention, 1993
Convention No. 81	Labour Inspection Convention, 1947

The Occupational Safety and Health Convention (No. 155 of 1981), together with its accompanying Recommendation (No. 164) and Protocol of 2002, prescribe the progressive application of comprehensive preventive

measures and the adoption of a coherent national policy on occupational safety and health, while establishing the responsibility of employers for making work and equipment safe and without risk to health, as well as the duties and rights of workers. Particularly relevant to workers' compensation is the Protocol to the Convention (adopted in 2002), which stresses the need to strengthen recording and notification procedures of occupational accidents and diseases. The accident statistics from workers' compensation schemes provide useful information for the analysis of the national OSH situation, as explained below.

The Occupational Health Services Convention (No. 161 of 1985) and its accompanying Recommendation (No. 171) stress that occupational health services are entrusted essentially with preventive functions and responsible for advising employers, workers and their representatives on maintaining a safe and healthy working environment, as well as on the adaptation of work to the capabilities of workers. The emphasis of these instruments are placed on the roles, use of resources and cooperation rather than on administrative structures.

The Chemicals Convention (No. 170 of 1990) and its accompanying Recommendation (No.177) represent international efforts to upgrade the national measures and harmonize regulatory standards. They emphasise the need to establish a coherent national policy of chemical safety ranging from the classification and labelling of chemicals to the control in all aspects of the use of chemicals. Particular emphasis is placed on roles and responsibility of the competent authority, suppliers and employers, as well as duties and rights of workers.

The Prevention of Major Industrial Accidents Convention (No. 174 of 1993) and its accompanying Recommendation (No. 181) aim to protect workers, the public and the environment from major industrial accidents, in particular through the prevention of major accidents involving hazardous substances and the limitation of the consequences of such accidents. It applies to major hazard installations with the exception of nuclear installations and radioactive materials processing, military installations and transport outside the site of an installation other than pipeline.

In addition to the Conventions and Recommendations, the ILO has prepared a series of codes of practice relating to various sectors of economic activity and various types of dangerous equipment or agents. These codes of practices are intended to assist governments, employers' and workers' organizations in drawing up national regulations and guidelines, work regulations and collective agreements.

Accident prevention normally is funded from general revenues or special levies and employers may object to use of their contributions for this purpose; furthermore, the scope for action by worker's compensation schemes is limited where another government institution, such as the factory inspectorate, has the legal responsibility for OSH. In these circumstances, the worker's compensation schemes have the role of reporting accidents and supplying statistics to the OSH authority. It is vital that such data distribution arrangements work efficiently since accident prevention strategies need to focus resources where most needed. Japan is aware that over 90 per cent of occupational accidents occur in small and medium size enterprises (less than 300 workers) which employ at least 80 per cent of the workforce; furthermore the workplaces with less than 50 employees account for 70 per cent or more of the total accidents. Prevention tactics can be devised accordingly.

This becomes an issue where worker's compensation schemes are concerned about adverse trends and slower progress than expected in reducing workplace hazards but have little scope under the prevailing legislation for interventions to improve strategic planning and implementation of national action plans in this field. Another dimension is the inclusion of commuting accidents as accident prevention necessarily becomes broader in scope raising a new set of issues in the field of traffic safety. For example, schemes regularly receiving numerous claims in respect of motor cycle accidents may consider that corrective and targeted actions are urgently needed (regarding wearing of crash helmets, checking for unlicensed drivers, speeding checks etc) but the responsible authorities have resource and other constraints that delay progress; concerns may arise that as the proportion that are accepted as commuting accidents receive medical care and financial compensation, this reduces the pressures for decisive actions to minimise the problem. In such situations the Governing Boards would be

justified in examining ways in which the schemes' roles in accident prevention could be increased and the most effective ways of achieving significant improvements.

In some instances, the worker's compensation legislation permits the institution to allocate some resources for cooperation with the main OSH authority. For example, the Industrial Accident Compensation Insurance Act of the Republic of Korea allows fund transfers from the Industrial Accident Compensation Fund to the Industrial Accident Prevention Fund for the purpose of prevention. Malaysia is another case in point and the governing board of the social insurance system authorises an annual budget for this purpose to be spent on awareness campaigns and targeted measures to improve safety and health amongst the groups most at risk. Whilst the Department of Work Safety and Health is responsible for accident prevention its activities are supervised by the Social Security Organisation which has the role of facilitator.⁸⁶ Thailand also allows the worker's compensation scheme to support prevention. The *Workmen's Compensation Act* stipulates in Article 28 that 22 per cent of the interest earned on investment of its reserves may be diverted to OSH purposes and for support for rehabilitation programmes.

As regards occupational diseases, a precaution stipulated in some countries (for example, in Japan and Pakistan) under labour protection legislation is a requirement for employees applying for jobs in sectors considered as posing health risks to undertake pre-employment examinations as a condition of employment, and also to require employees in such industries to have periodical examinations in order to make early diagnosis of serious diseases.

As explained in section 4.5 countries using risk-rating contribution rates can make some impact on accident prevention due to the system of financial incentives and penalties. In Germany contribution rates have been reduced from nearly 5 per cent in 1960 to an average of 1.31 per cent in 2003.

A recent survey by the ISSA⁸⁷ Technical Commission on Insurance against Employment Accidents and Occupational Diseases brought out examples of an increasing interest in expanding the area of action beyond medical care and cash benefits to encompass prevention in full or to an extent.⁸⁸ In Quebec, reform of the worker's compensation scheme was initiated in 1990 to further prevention in the face of rises in the incidence of serious accidents and compensation costs; intensive prevention drives were initiated with stronger incentives in the system of premium determination for smaller businesses to form mutual help groups for establishing voluntary prevention groups. A similar initiative in Ontario resulted in a new legal basis for a stronger focus on prevention and the establishment of the Workplace Safety and Insurance Board to implement the law. Zimbabwe, which is the only African country to integrate compensation and prevention measures, established the Accident Prevention and Workers Compensation Scheme in 1990 to give a higher priority to prevention.

It is observed that governance of such combined schemes is given an impetus since both employers and employees have a keen interest in reducing accidents and readily cooperate in this field. The conclusion drawn was that the most effective approach was to integrate prevention with compensation in one institution, as in these examples.

Germany is a leading exponent of the integrated system for insured persons but in this instance it extends also to extensive rehabilitation. There are 35 statutory accident insurance funds active in sectors of agriculture and commerce which operate under the bipartite management of employers and workers. These funds are empowered to enact accident prevention regulations and to inspect enterprises. Their mandate is:

- firstly to prevent accidents;
- when accidents do occur, to restore health and working capacity, and
- finally, to provide benefits.

The funds collect detailed statistics to pinpoint the areas for special attention, carry out

⁸⁶ "Problems and challenges of statutory accident insurance schemes relating to occupational diseases: Reporting, recording and statistics" Stefan Zimmer, Head, International Social Policy, National Federation of Industrial Employment Accident Insurance Funds, ISSA Conference Towards sustainable social security systems, Limassol, Cyprus November 2003.

⁸⁷ ISSA International Social Security Association

⁸⁸ Information in this part is primarily from "Conditions for implementation of reform of a work injury scheme", Joachim Breuer, ISSA Conference Towards sustainable social security systems, Limassol, Cyprus, November 2003.

periodical inspections of enterprises in enforcement of the accident prevention regulations, and hold seminars (18,000 to 20,000 per year) to disseminate up-to-date knowledge of regulations and new techniques to be employed in this sphere.

Australia provides another model for integration of prevention and compensation. A new body the Australian Safety and Compensation Council was recently established which, in replacing 6 different OSH regimes, is expected to further focus national efforts on consistency and also provide a national forum for the first time on worker's compensation. This change is important for the implementation of the national OSH strategy for 2002-2012 which sets targets for the progressive reduction of workplace injuries and deaths over this period

As explained in Annex 2, Samoa's scheme accords first place to safety promotion and accident prevention and has developed strategies and performance standards in its Corporate Plan for 2003-2005 in this sphere of its work. The New Zealand Accident Compensation Commission has devised an injury prevention strategy for the country as a whole with the objective of *a safe New Zealand becoming injury-free*. This is envisaged as a strategic framework for injury prevention in society in general. ACC drew up an Implementation Plan from June 2004.

15.10.2 Rehabilitation

Medical care provided by worker's compensation schemes may be confined to the minimum necessary for treatment of the injury, which is the basic approach of many employer liability schemes, or have higher objectives more consistent with the concepts underlying the provisions in the Social Security (Minimum Standards) Convention, No.102 of 1952 that the scheme should assume responsibility for ... *maintaining, restoring or improving the health of the person protected and his ability to work and to attend to his personal needs*. Whilst social insurance schemes tend to pursue the higher objectives, some may, for lack of resources, confine rehabilitation to medical rehabilitation, including the supply and replacement of artificial limbs and appliances. Other countries are able to cooperate with vocational rehabilitation institutions by providing vocational guidance, arranging attendance at courses and paying

allowances for the duration of the training. New Zealand places considerable emphasis on rehabilitation and Japan has established 39 hospitals across the country which operate under the Labour Welfare Service to provide medical, vocational and social rehabilitation. Other Asian countries such as Malaysia, Philippines and Thailand are actively developing comprehensive rehabilitation systems. Extensive rehabilitation is the norm amongst the long-established schemes in European countries, including Austria, France, Germany, Spain and UK and in Canada and the USA.

15.11 Reform and development of worker's compensation schemes

15.11.1 Planning of reforms

This section addresses the issues of the reform and development of worker's compensation schemes against the background of growing and widespread interest, to a greater or lesser extent, in all types of countries in strengthening their systems of worker's compensation protection not only in respect of the central responsibility of providing adequate compensation in conformity with the relevant ILO standards but also in increasing support through one means or another for the promotion of occupational safety and health.

Previous sections of this study have elucidated the concepts, principles and relevant ILO standards of worker's compensation insurance and described the structure of employer liability and social insurance schemes with examples drawn from both developed and developing countries. It is evident from the information provided that worker's compensation insurance in numerous countries is undergoing processes of reform and modernisation in order to keep pace with and adapt to the changing world of work, new national priorities and evolving concepts of employment injury protection. However, these trends are less noticeable amongst Pacific Island states, which still rely on employer liability schemes although in certain countries some stakeholders of existing schemes which have functioned for many years are conscious of the need for changes and upgrading, but have lacked information on policies and strategies in similar countries which could serve as guidelines for policy formulation and technical planning. This is in recognition of the fact that a pre-requisite for such planning exercises is an understanding

of the objectives and experiences of other countries, including countries from the same region, in order to gain insights into the most suitable reform strategies. This study aims to contribute to this process. In addition, the findings of a recent survey conducted by the ISSA Technical Commission on Insurance against Employment Accidents and Occupational Diseases provide useful information which may be taken into account in determining the most suitable methods of action to effect the desired types of change.⁸⁹

The ISSA survey showed that in addition to the dissemination of information on developments in this field the emphasis was on providing comprehensive rehabilitation and integrating prevention with the provision of compensation, as already discussed in section 9 above. The remaining three points are of special importance in any strategies for developing reform proposals:

- Involvement and participation of stakeholders;
- Administrative pre-requisites and specialisation of the insurance scheme; and
- Differential contribution rates.

15.11.2 *Involvement and participation of stakeholders*

From the information provided by responding countries, it was clear that the process of formulating reform objectives and strategies required the full participation of the social partners at all stages. The main point emerging from the examples provided was that involvement of stakeholders ensured that a consensus was achieved and a thorough preparation of the scheme and the legislation, which became the foundation for a smooth conversion and changeover to the new measures. Although the extensive consultations took time in the countries involved, the conclusion was that this ensured a speedier implementation phase and overall a sound basis for the sustainability of the new scheme.

The problem to be confronted in most countries is that employer liability schemes may be operating with little or no involvement of the

social partners except occasionally at a forum such as a Labour Advisory Board or its equivalent. Where a contributory social security scheme is in force its governing board has no jurisdiction over workers compensation insurance and therefore some means has to be found, such as by setting-up an ad hoc working group or committee, to overcome this obstacle to close and continuous involvement of the stakeholders in the planning of any reforms.

15.11.3 *Administrative prerequisites and specialisation.*

The survey confirmed that adequate statistics, well-trained personnel and an effective administrative system were essential to planning and implementing a new scheme. One example is that the changeover from an employer liability scheme requires the registration of employers and employees and establishment of data bases to be followed by the collection of contributions. These basic functions must run efficiently if the scheme is to have a sound foundation. The provision of medical care under worker's compensation insurance is facilitated where social health insurance schemes are operating, and any existing systems for payment of cash benefits and including pensions could be utilised by a new scheme so the existence of such working systems would present options for bringing a new scheme within the auspices of the existing social security system as a separate branch with its own autonomous funds.

However, on this point, the survey brought out views that worker's compensation is complex and specialised and best administered as a separate scheme, but that this is not necessarily feasible in all instances, particularly in developing countries or those in transition. In such situations a possible solution would be to set up a separate branch to function within the framework of the social security system in as an integrated a manner as possible; the use of common databases, the contribution collection systems and benefit payment systems are examples of where savings and efficiency gains could be achieved

In making such decisions the views of stakeholders and the costs of each option should be taken into account. One important consideration is that the major scheme is invariably the national provident fund which comes under Ministry of Finance in most

⁸⁹ *Conditions for implementation of reform of a work injury scheme*, Joachim Breuer, ISSA Conference Towards sustainable social security systems, Limassol, Cyprus, November 2003.

countries whilst employer liability schemes are the responsibility of the Ministry of Labour or its equivalent. Since close coordination with OSH departments under the labour departments is essential, the first option should be to establish any new scheme under the auspices of the Ministry of Labour, which could facilitate the transition from the existing scheme to its successor.

15.11.4 Differential contributions

The report of the ISSA Technical Commission contains information on trends in various countries to use risk and experience rating of contributions to influence employers to increase efforts to reduce accidents and risks of contracting occupational diseases. It should be noted that in June 2003, the International Labour Conference in its discussions of ILO's standards-related activities in the area of occupational safety and health and concluded that national OSH programmes should include certain key aspects including occupational injury and disease compensation and rehabilitation systems that use experience rating and incentives.

However, as explained in the section on financing, this presents challenges to developing countries which have limited experience of the techniques involved in establishing and administering risk and experience rating contribution systems. Consequently, this is a major issue for countries aiming to reform their existing schemes and make prevention an important objective of the new system, together with high standards of compensation.

The risk and experience rating system is practiced by insurance companies active in worker's compensation insurance which typically could charge approximately 0.20 per cent of payroll at the lowest risk level for activities such as office administration, and over 10 per cent for those enterprises in sectors such as logging and construction. The dilemma is that the alternative would be to propose levying uniform contribution rates such as 1 per cent of earnings, in order to raise adequate resources, which would involve enterprises in less risky sectors paying higher contribution rates than under private insurance, and those in the more risky sectors paying less. This would be resisted by employers in general and is contrary to strategies to provide incentives to employers to vigorously pursue accident reduction.

15.11.5 Conclusions

The information in this study may assist Pacific Island countries to develop their interest in improving long-standing schemes based on employer liability principles by enabling them to establish clear policy guidelines for reform. This can be best accomplished by extensive social dialogue based on improved understanding on what are feasible and affordable objectives in this field. As illustrated in this study, social insurance principles of pooling risks and finances in separate autonomous funds has enabled countries with similar social and economic conditions to those prevailing in the region to extend coverage and the scope of protection and to upgrade compensation benefits so that victims of work-related accidents can receive comprehensive medical care, including rehabilitation, and better designed short and long-term cash benefits, including pensions, which are more responsive to gender-specific needs.

With an autonomous fund conserving all contributions paid by employers for the purposes of the scheme and under the control of a tripartite board, thus strengthening governance, it will be possible to allocate some resources to accident prevention and support for occupational safety and health activities, assuming that the legislation has provided for this as an objective of the scheme, as well as to institute close coordination between the two systems. The example of Samoa which has operated a wide ranging scheme based on social insurance principles for 25 years may be of special interest to other countries in the region.

One of the key challenges to be met in reform of worker's compensation schemes will be how to institute suitable and feasible contribution systems and technical assistance may be required to develop capacities in this and other aspects of worker's compensation insurance

Progress in this field in various countries would be consistent with the concept of Decent Work as involving the aims of enhancing the coverage and effectiveness of social protection for all and ensuring that Decent Work is safe work.

Appendix to Chapter 15 – International Experience

15A Summary of employment injury schemes in selected countries in Asia and the Pacific

Table 15.5 Coverage and Contribution Rates for Worker’s Compensation - Selected Countries in Asia and Pacific

Country & date of first law*	Scope of Coverage	Contribution Rates
China 1951	Employees in state-run enterprises and some collective enterprises.	Employers pay differential rates (0.5%, 1.0% and 2.0%) averaging 1% of payroll.
India 1923 (Employer Liability) 1948 (SI)	Employees earning less than INR 7,500 per month in power-using enterprises with 10 or more workers.	Employers pay 4.75% of earnings for the sickness, maternity and employment Injury scheme and workers 1.75%
Indonesia 1939 (Employer Liability) 1992 (SI)	Establishments with 10 or more workers or a monthly payroll of IDR 1 million.	Employers pay according to risk in industry 0.24 to 1.74% of payroll.
Japan 1911 (Employer Liability) 1947 (SI)	Employees in industry and commerce voluntary coverage for agricultural, fishery and forestry sectors with less than 5 workers and special systems for seamen and public service.	Employers pay from 0.55% to 13.5% of payroll according to 3-year accident rate.
Malaysia 1929(Employer Liability)1969(SI)	Employees earning less than MYR 2,000 per month unless already covered when earning less	Employers pay uniform rates of 1.25 % of payroll
Mongolia 1993 (SI)	All employees. Voluntary coverage of the self-employed.	Employers pay 1, 2 or 3% of payroll according to risk & claims experience. Self-employed -1%.
New Zealand 1908(Employer Liability)	All insured persons including children employees and non-working adults, visitors and nationals travelling abroad.	Work injury benefits financed by employers premiums rated according to risk, and earmarked taxes (gas and vehicle licence fees). For non-work injuries, general revenues finance benefits.
Pakistan 1923 (Employer Liability) 1963(SI)	Employees in selected industries and establishments with a minimum of 5 workers earning PKR 3,000 per month or less.	Employers pay 7 % of payroll for the sickness, maternity and employment injury scheme.
Philippines 1974 (SI)	All employed persons including those recruited to work abroad and domestic workers.	Employers pay uniform rates of 1% of payroll.
Samoa 1960 (Employer Liability) 1978(SI)	Employees for work-related accidents and entire population for motor vehicle or boat accidents.	Employer and workers each pay 1% for work-related accidents. Earmarked tax of WST 0.05 per gallon of motor fuel for vehicle and boat accidents.
South Korea (Rep. of) 1953 (Employer Liability) 1963 (SI)	All employees. Voluntary coverage for small-scale construction projects agricultural, fishery and forestry sectors with less than 5 workers, domestic employees & the self-employed.	Employers pay from 0.4 to 31.9% of payroll according to risk in industry (average 1.49%).
Thailand 1972(SI)	Employees in firms with 1 or more worker.	Employers pay from 0.2 to 2.0 % of payroll (presently 1% maximum).
Vietnam 1929(Employer Liability),1995(SI)	State employees and non-State enterprises with 10 or more workers, foreign invested firms, and the industrial and processing zones.	Employers' total contributions for sickness, maternity and Employment Injury are 5%.

Main Source: Social Security Programs throughout the World 2002(Social Security Administration of USA.)

*Employer Liability-employer liability SI- social insurance

Table 15.6 Selected Employer Liability Schemes for Worker's Compensation

Country and date of first law	Scope of Coverage	Compulsory or Voluntary Insurance
Brunei 1957	All employees	Compulsory
Fiji 1965	All employees and apprentices	Voluntary
Hong Kong 1953 (Employer Liability) 1971(Social assistance)	All employees	Compulsory
India 1923	Manual workers in employments scheduled in 1923 Worker's Compensation Act	Voluntary
Indonesia 1939	Employees not covered by social insurance scheme.	Voluntary
Kiribati 1949	Employees earning AUD 4,000 per year or less	Voluntary
Pakistan 1923	Employees in industrial establishments with 10 or more workers earning PKR 3,000 per month or less who are not covered by the social security scheme are covered by the 1923 Worker's Compensation Act	Voluntary
Papua New Guinea 1958	All employees, including public employees.	Compulsory
Singapore 1933	All manual labour, except domestic staff, casual employees, family labour and salaried workers earning less than SGD 1,600 per month.	Compulsory
Solomon Islands, 1952	Employees earning SBD 4,000 per year or less	Compulsory
Sri Lanka 1934	All workers except the police and armed forces	Voluntary

Main Source: Social Security Programs throughout the World Asia and Pacific 2002 (Social Security Administration of USA).

Table 15.7 Definitions of Employment Injury-Selected Countries

Country	Main Definition
Germany	Accident injury occurred in the enterprise and/or in connection with an occupation depending on the enterprise on the basis of a contract of employment or any other insured activity.
Greece	Accident injury occurred because of and during employment.
France	Any injury occurred as a result of or in connection with work, regardless of its cause.
Ireland	Personal injury incurred as a result of an accident at work, including diseases caused by such accidents or a prescribed occupational disease contracted in the course of insurable employment.
Italy	Employment injury produced by violent cause at work.
Sweden	Every accident or illness related to the working situation. Proof system. An injury is accepted as a work injury if it is clear that the person has suffered an accident or some other harmful influence at work. The injury must be presumed to be a result from the harmful influence if there are stronger grounds for such a presumption than the contrary.
UK	Personal injury caused while a person is at work or while he or she is working.
Malaysia	A personal injury to an employee caused by accident or an occupational disease arising out of and in the course of his employment in an industry to which this Act applies.
Thailand	Physical or mental injury or death suffered by an employee as the work employment or in the course of protecting the interest of the employer or according to the commands of the employer Illness means illness suffered by an employee as the result of work caused by diseases incidental to nature or the condition of work

Main sources: MISSOC and national legislation

Table 15.8 Benefits for Worker's Compensation - Social Insurance Schemes

Country	Medical	TDB	PDB	Survivors
China	Medical care, surgery, nursing, medicines, appliances, transport & hospitalisation	100% of wage until recovery or permanent disability determined	75-90% of wage if totally disabled. Disability allowance of 6 -24 months wages For partial disability from 10-30% of wage minimum pension set locally	40% of wage for spouse, 30% each for other dependants lump-sum 48-60 month's wages funeral grant 6 month's wages
India	Treatment, surgery, hospitalisation, medicines, artificial limbs, & other appliances	Benefit is payable from day 4 until recovery according to wage classes average about 70% of earnings	Total disability ranges from rupees 19.60 to 175 per day according to wage classes. Partial disability rate is percentage in proportion to % loss of earnings capacity	Widow: 60% of insured's TDB entitlement (average 70% of earnings) Orphan 40% if under age 18 or until daughter marries. Maximum of all pensions is 100%of TDB
Japan	Medical care, surgery, nursing, hospitalisation, medicines, dental care, appliances, & transportation.	Employer pays 60% of wage for first 3 days. TDB is payable from day 4 for 18 months maximum at 60% of average daily wage over last 6 months plus a Labour Welfare supplement of 20% of average daily wage subject to minimum benefit rate. TDB continues unless severely disabled when pension payable according to degree of disability.	For grades 1 to 7 disability, pension is 100% of average daily wage multiplied by degree of disability. For grades 8-14 lump-sum benefit of between 56 and 503 times average daily wage. Carers of severely disabled receive allowances.	Annual pension equal to average daily wage over last 6 months multiplied by between 153 and 245 days according to number of survivors. Eligible survivors are widow, widower, children, grandparents, grandchildren and dependant brothers and sisters (all except the widow must meet age or disability requirements)
Malaysia	Medical care, surgery, hospitalisation, medicines, appliances & medical and vocational rehabilitation .	80% of average daily wage payable after 4 days waiting period (waiting days payable if incapacity lasts more than 4 days).	90% of average daily wage if totally disabled. Partial disability is percentage of full pension according to degree of disability Lump-sums payable if disability less than 20 %. Constant attendance allowance of 40% of pension	Full benefit is 90% of average daily wage payable at 60% to widow or widower, 40% to orphans (60% for full orphans) under age 21 or completion of 1 st degree no age limit for disabled child. If none of above parents siblings and paternal grandparents, if previously the insured's dependant

Continued on next page

Table 15.8 Benefits for Worker's Compensation - Social Insurance Schemes (Cont)

Country	Medical	TDB	PDB	Survivors
New Zealand	Full range of medical care for which a minimum payment is required. Social rehabilitation without limits and vocational training for up to 3 years	80% of gross earnings payable until return to work. Minimum benefit is NZD 256 per week or NZD 204.80 if under age 18. Maximum benefit is NZD 1,365.05 per week	If 10% or more impaired, a lump-sum ranging from NZD 2,500 to NZD 100,000.	Survivor's pensions are calculated from 80% of gross earnings. 60% for widow(er)'s pension - orphan - 30% for each child under age 18 or 40% if full orphan. 20% for other dependants Grant NZD 4,824.59 for spouse; NZD 2,412.30 per child or other dependant
Pakistan	Social security clinics and hospitals provide general medical care, specialists, hospitalisation surgery and transportation.	60% of earnings, 100% in Punjab and Singh payable after 3 day waiting period (waived in Punjab) for up to 180 days	75% of earnings (100% in Punjab) and percentage for partial disability according to loss of earnings capacity	60% of total disability pension for widow or needy disabled widower. Orphans under age 16 - 20% or 40% for full orphan. If no spouse 20% for dependant parent. Total payable for all pensions is 100% of PTD
Philippines	Medical, surgical and hospital services, appliances and rehabilitation.	90% of average wage in best 6 months out of last 12 months from first day for up to 240 days in a calendar year. Minimum 10 pesos per day Maximum PHP 200 per day	115% of the sum of 300 pesos plus 20 % of average monthly credited earnings for each year of contribution in excess of 10, or 115% of 40% of average monthly credited earnings, or 2000 pesos, whichever is the higher. Plus a supplement of the higher of 10% of pension, or PHP 250, for each of 5 youngest children under age 21. Partial disability is PTD rate but payable for periods related to degree of incapacity. Minimum pension is PHP 2,000 per month	Survivors entitled to 100% of PTD plus dependants supplement of 10% per child for 5 youngest children under age 21. The insured's monthly pension is payable for some categories of survivor for up to 60 months. The grant must be not less than PHP 120,000 in total.
Samoa	Reasonable medical expenses for first aid, dental care, transport, surgery and hospitalisation, plus artificial aids and rehabilitation.	70% of earnings subject to minimum of WST 35 per week up to maximum of WST 400 per week. Maximum duration is flexible.	For disability of 80% or more: a pension of 70% of earnings for life for 100% disability and proportionate amounts for lower assessments. For disability lower than 80%: lump-sum of up to WST 8,000 according to assessed degree of incapacity	A lump-sum of WST 20,000 to dependants plus weekly compensation of 70% of wages for up to 4 years subject to a WST 200 a week maximum
Thailand	All necessary medical, surgical and hospital services up to maximum cost of THB 35,000 or up to THB 50,000 in special cases	60% of wage is payable after 3 days (payable later if incapacity lasts more than 3 days) Minimum monthly benefit is THB 2,000 and maximum is THB 9,000	PTD is 60% of average monthly wage payable for 15 years. For partial disability 60% of earnings payable for up to 10 years according to degree of incapacity or as a lump-sum	60% of earnings payable for 8 years or as lump-sum pension amount shared between spouse, parents, children under age 18 (no age limit if student or disabled)

Main source: Social Security Programs throughout the World Asia and Pacific 2002 (Social Security Administration of USA.)

Table 15.9 Benefits for Worker's Compensation - Employer Liability Schemes

Country	Medical	TDB	PDB	Survivors
Fiji	Medical and hospital care, surgery, medicines, appliances and transportation	66% of weekly earnings payable after 2 day waiting period for up to 260 weeks and a maximum amount of FJD 16,000.	For total disablement a lump-sum of 260 week's earnings and a percentage of this for partial disability according to degree of disability.	A lump-sum of 208 week's earnings subject to a minimum of FJD 9,000 and a maximum of FJD 24,000
Hong Kong	Medical examination, treatment and appliances.	80% of the difference between earnings prior to and after onset of disability payable for maximum of 36 months.	A lump-sum of between 48 and 96 month's earnings according to age of the employee. Minimum is HKD 344,000 and maximum HKD 2,106,000. Partial disability benefit is appropriate percentage of PTD.	Grant of between 36 and 84 month's earnings according to age of the deceased with a minimum of HKD 303,000 and a maximum of HKD 1,764,000.
Kiribati	No provision for medical care under the Ordinance. Employer may be required to pay for artificial limbs	The rate is 100% if the earnings are AUD 40 a month or less, 75% for monthly earnings of over AUD 40 but not exceeding AUD 60, and 66 ² / ₃ % for earnings higher than AUD 60 per month. TDB is payable after 3 waiting days with a financial limit of the lump-sum amount payable if the incapacity is permanent.	PTD is payable as a lump sum of 48 months earnings or AUD 25 000, whichever is less, and constant attendance benefit is another 25%. Benefits for partial incapacity are proportionate to the benefits for PTD according to the degree of incapacity.	Eligible dependants receive death benefits of a lump sum of 48 months earnings or AUD25,000, whichever is less,
Pakistan	Medical examinations and treatment	50% of monthly earnings for up to 1 year For a lung disease 33% is payable for up to 5 years	For PTD a lump-sum of PKR 200,000 and partial disability attracts payments in proportion to degree of incapacity	A lump-sum of PKR 100,000
Singapore	All necessary medical care, medicines, hospitalisation, and appliances	100% of earnings for up to 60 days if hospitalised and 14 days if not; thereafter 66 ² / ₃ % Maximum duration is 1 year	PTD is lump-sum of 6 to 12 years earnings according to age subject to a minimum of SGD 49,000 and maximum of SGD 147,000. Amount for partial disability is in proportion.	Benefit is a lump-sum of 4 to 9 years earnings according to age subject to a minimum of SGD 39,000 and maximum of SGD 111,000
Solomon Islands	Medical care, medicines and appliances	0 -100% of earnings according to the wage and the assessed degree of disability Maximum is SBD 160 per month Payable until recovery, death or certified as permanently disabled.	Lump-sum of 48 month's earnings for PTD and proportionate amounts for partial disability. Maximum is SBD 9,000	Lump-sum of 36 month's earnings less PTD already paid up to maximum of SBD 9,000. Maximum for a fatal injury is SBD 80,000. Courts allocate amounts to survivors.
Sri Lanka	Free of charge in government hospitals.	50% of earnings for up to 5 years. Maximum is 5,000 rupees per month	A grant of between 21,168 and LKR 250,000 and for partial disability from 30% and 100% of compensation	Lump-sum of between 2 and 5 years wages varying inversely to wage class. Minimum and maximum sums.

* Constant attendance allowance is payable

Main source: Social Security Programs throughout the World Asia and Pacific 2002 (Social Security Administration of USA.)

15B The accident compensation scheme of Samoa

15B.1 The Accident Compensation Insurance Scheme of Samoa

15B.1.1 Introduction

The Accident Compensation Scheme in Samoa has operated for over 25 years and constitutes a rare example of a social insurance scheme for work-injury amongst Pacific Island countries. For this reason alone it is of interest to countries which are concerned about serious deficiencies in their worker's compensation schemes and wish to gather information on how conversion into a social insurance system works in practice in a socio-economic setting with many similarities to the conditions in their own countries. However, the following other features of the scheme are of special interest:

- Cover for work-injury was recently expanded to a 24 hour 7 days a week basis;
- The scheme covers the whole population against the consequences of motor vehicle and boat accidents; and
- Emphasis on accident prevention and comprehensive rehabilitation.

The purposes of this Annex therefore are to:

- Describe the objectives of the scheme, its scope of coverage and systems of contributions and benefits; and
- Outline the main features of its organisation and administration.

To provide the social and economic context of the scheme, general information on Samoa is provided in the following section.

15B.1.2 General Information on Samoa

(i) Location, Population and Employment

Samoa is a small group of ten islands in the South Pacific Ocean, about half way between Hawaii and New Zealand. Most of the population is concentrated on the two main islands, Upolu and Savaii. The 2001 census found that the total population was 176,710 with a distribution of 52 percent male and 48 percent female. As the population growth rate is about 1.0 percent per annum the current population in 2005 is estimated as in excess of WST 180,000. GDP per

capita increased by about 3.2 per cent over the period 1995-2002. This reflects both the strong economic performance and low population growth rates as a result of out-migration. At the end of 2002, GDP real per capita amounted to WST 3950 (USD 1,230), increasing from WST 3,180 (USD 1,006) in 1995. The average real rate of GDP growth over the period 1995 – 2002 was 4.0 per cent which was followed by 3.5 per cent in 2003. The growth acceleration was driven by the manufacturing sub-sector, transport and communications, finance and business services, and agriculture, which expanded strongly after years of decline. Public administration, hotels and restaurants, and personal services also grew relatively rapidly, while construction grew at a modest rate of 2.5 per cent. The fishing industry experienced a 10 per cent decline due to unfavourable climatic conditions common to the region.

The Labour Force Survey 2000 found that 17,164 persons, of whom 7,163 were women and 10,001 were men, were employed in the formal sector. The survey revealed that paid employees were 93 per cent of the total and self-employed about 4 per cent with the remainder unpaid family workers and paid non-citizens.

(ii) Social Security Programmes

Samoa has a range of other formal social security programmes of which the following are explained below:

- The National Provident Fund;
- Senior Citizens Benefit Fund (Universal aged pension scheme); and
- Universal health care.

It should be noted that there is no sickness benefit through labour or social insurance legislation, which in many countries could be a factor in increasing claims under work injury by employees who are incapacitated for work due to a cause other than an accident, but find it possible to claim otherwise in order to receive an income whilst undergoing medical attention for a morbid condition.

(iii) Samoa National Provident Fund

The Samoa National Provident Fund (SNPF) was established in 1972 in parallel to the Government Superannuation Fund which it superseded in 1994 when the two funds merged. The SNPF is

managed by a ten member tripartite board comprising representatives from government, employers and employees. SNPF is a defined contribution scheme; 5 per cent is contributed from the members' wages and 5 per cent by the employer. Membership currently stands at approximately 66,000 and its assets and contributions were valued at USD 91 million as of December 2002. The fourth quarterly report (30 June 2004) showed 21,318 contributing members and 63 voluntary contributions, a total of 21,381 active contributors.

As in a number of Pacific Island countries none of the social security schemes provide pensions, it is noteworthy that SNPF offers the option of an annuity at age 55 years, or full withdrawal of balances in a lump-sum. Due to the generally low balances at age 55, as a result of withdrawals allowed under the legislation, most of the pensions are awarded to senior public servants and some private sector contributors who have sufficiently large balances in their retirement accounts to obtain reasonable monthly pension rates. Most members choose lump sum payment as the monthly pension rates would be insignificant. At the end of June 2004 there were 1,035 SNPF current pensioners

(iv) Senior Citizens Benefit Fund (SCBF)

Since November 1990 the government has provided a universal defined pension to all senior citizens over 65 years of age. The benefits provided to pensioners include:

- Cash payment of WST 100 per month;
- Free health care including consultation, hospitalisation and pharmaceuticals;
- Free transport on government buses and ferries including to American Samoa; and
- Assistance and mediation between pensioners and payment trustees.

In 2003 there were 4,532 females and 3,689 males in receipt of these pensions. Benefit is now paid in cash to minimise overpayments which can occur when the pensioner dies or leaves the country for a period of more than 30 days.

(v) Health services

The Samoan National Health Care System is dominated by the public health sector. The Ministry of Health provides primary, secondary, limited tertiary care, and public health services

through a network of facilities. Tertiary care, which basically is unavailable in-country, is provided overseas generally in New Zealand and Australia. Approximately 5.8 per cent of the GDP and 17.8 per cent of the total government expenditure is spent on the health sector. Per capita expenditure amounts to USD 86. Government spending on health as a proportion of its total expenditure has notably increased from 10.2 per cent in 1991 to 17 percent in 2001. For health care financing, 63 per cent was accounted for by public sources and 21 per cent by private sources (out of pocket for private sector including traditional healers). The remaining 16 per cent was provided by international donors and other sources.

It is estimated that 44 per cent of total health expenditure occurred in the public sector, 18 per cent in the private sector, pharmacies (public and private) for 19 per cent, and remaining 19 per cent related to overseas treatment. Over recent years the profit-based private health sector has been expanding.

15B.1.3 Overview of the Accident Compensation Scheme

(i) General

The Accident Compensation Board was established in 1979 and its current legislation (Accident Compensation Act 1989) was amended in 2003 to extend cover of workers on a 24 hour and 7 days a week basis and to provide accident compensation to the whole population against the consequences of specified conveyance accidents. Some benefit improvements were introduced, including:

- Increase of weekly compensation from 60 to 70 per cent of earnings;
- Doubling of the maximum sum for permanent incapacity to WST 8,000, and
- Changing the maximum duration of pension payments for permanent disablement of 80 per cent or more from 5 years to until recovery which means for life in the majority of such cases.

The 2003 amendment also renamed the Board as the Accident Compensation Corporation (ACC). Board membership is prescribed in section 4 with the Minister of Labour designated as chairman, the Commissioner of Labour as Deputy Chairman; and the Financial Secretary, President of the Chamber of Commerce,

President of the Manufacturers Association and 5 other members (appointed by the Head of State, acting on the advice of the Cabinet) of which one should be a barrister or solicitor, one a doctor, one a public accountant, and two other persons who are acquainted with the customs and traditions of Samoa.

The ACC organisation chart is at Annex 4. The major functions of the ACC are the:

- promotion of safety and accident prevention both at workplaces and throughout the community;
- provision of compensation and rehabilitation for employees who are victims of work-connected accidents, including cover for 24 hours per day and 7 days per week, and for persons who suffer specified conveyance accidents; and
- provision of compensation to dependents of persons who die as a result of workplace or conveyance accidents.

The ACC collects from employers in the private and public sectors 1 per cent of payroll and, since September 2003, 1 per cent of gross earnings from employees. The main reason given in the Annual Report for 2003 for the introduction of employee contributions was to finance the extended coverage on a 24 hour and 7 day week basis. A fuel levy of WST 0.05 per gallon of fuel is paid to ACC for the costs of compensation in respect of specified conveyance accidents. Two funds were maintained for work injury and conveyance accidents respectively until September 2003 when they were merged

(ii) Scope of Coverage

The Act specifies that any worker employed by any employer other than an exempted employer who suffers personal injury by accident arising out of and in the course of his employment is entitled to compensation and rehabilitation. The Act applies to any worker in any occupation whether or not the employment is for the purposes of any trade or business carried on by the employer and whether or not the employment is of a casual nature. These provisions were revised with effect from September 2003 to provide cover on a 24 hour and 7 days a week basis.

As regards **accidents**, the key definitions are as follows:

“Accident or personal injury by accident includes occupational disease to which the Act applies”

“accident covered by the Act” means an accident covered by special provisions in sections 15,16,17,18, 25 and 35 of the Act within the basic definition of a “personal injury by accident covered by this Act”.

The special provisions deal with the following situations

- (a) Apprentices are covered whilst attending technical school or other places of training
- (b) A person who suffers an accident whilst acting in contravention of regulations or enactments applicable to his employment or of orders given to him will be covered if it is deemed that the accident would have occurred had the worker not acted in contravention as stated or without orders from his employer
- (c) Where the accident happens during any temporary interruption of work for a meal or refreshment the accident is deemed to arise out of and in the course of the employment if the accident would have been deemed so to have arisen had it happened at the place of employment and if:
 - (i) the accident happens on premises occupied by the employer; or
 - (ii) the accident happens on premises to which the worker had right of access during the temporary interruption of his work; or
 - (iii) the accident happens on premises to which the worker is permitted to resort during the temporary interruption of his work.
- (d) Where the accident happens while the worker is travelling to or from work by a means of transport, the accident shall be deemed to arise out of and in the course of the employment:
 - (i) if the employer has provided the means of transport primarily for the purpose of carrying workers employed by him; or
 - (ii) the means of transport has been expressly or impliedly authorised by the employer for the purpose; or
 - (iii) the employer has arranged with the worker or group of workers for the transportation of the worker to and from work by that means of transport and has paid or become liable to pay the whole or any portion of the fare or cost of carriage of the worker by that means of transport.

- (e) Where an accident happens to a worker while he is travelling to or from work by the most direct practicable route between the place of employment and premises to which he has the right of access, or is upon any such premises, the accident shall be deemed to arise out of and in the course of the employment, if the accident would have been deemed so to have arisen had it happened at the place of employment.
- (f) If the preceding sub-paragraph does not apply, and an accident occurs to a worker while he is travelling directly to his place of work from his place of residence by a route which having regard to all of the circumstances was a reasonable one for him to follow the accident shall be deemed for the purposes of the Act to have arisen out of and in the course of his employment.
- (g) An accident caused by another person's misconduct, skylarking, or negligence is now covered provided that the worker did not directly or indirectly induce or collaborate to the happening of the accident by any act not incidental to his employment.
- (h) Injuries sustained whilst overseas by a worker who is temporarily absent from Samoa exclusively or principally for the purposes of his employment in Samoa are covered, and
- (i) Where the contract of service or apprenticeship under which the injured worker was working at the time of the accident was illegal the Board may deal with the matter as if the injured worker had been working under a valid contract of service or apprenticeship. Cases of victims under the minimum age can be treated similarly.

Under the amendments a specified conveyance is defined as follows:

- “(a) A motor vehicle, including a motor cycle or other means of conveyance on land, which is propelled by means of a motor or engine, or
- (b) A sea-going vessel which is propelled by means of a motor or engine where such vessel is travelling between two or more points in Samoa or which is intended to return to its point of departure in Samoa without calling at any point or place outside Samoa during the course of its journey”

This omits cover for airplane journeys as prescribed in the original Act. This was dropped due to other arrangements recently introduced for the insurance of airline passengers.

Section 19 which previously prohibited the payment of compensation in respect of self-inflicted injuries or death due to suicide, other than suicide resulting from an accident covered by the Act, was revised to extend entitlement in respect of self-inflicted injuries on the same basis to include personal injuries which were the result of a state of mind which itself was the result of an accident covered by the Act. In addition disqualifications are imposed on:

- dependants of a deceased person for the receipt of compensation when that dependant has been convicted of the murder or manslaughter of that person; and
- a claimant who submits a claim in respect of a personal injury which was suffered in the course of committing a criminal offence and the injured person is convicted of the offence concerned.

The main purpose of these various special provisions is to remove any doubt in some of the borderline situations that can occur and so ensure speedy settlement of claims, usually to the benefit of the claimants.

(iii) *Benefits*

Medical benefits are defined as reasonable medical expenses for first aid, dental care, transport, surgery and hospitalisation, plus artificial aids and rehabilitation. Overseas medical treatment is permitted up to a maximum of WST 15,000. Whilst the main purpose of the ACC scheme is stated to be accident prevention, a high priority is accorded to physical rehabilitation in order to assist persons disabled through accidents to the maximum extent. WST 15,000 is also the new maximum for expenditures on artificial limbs or aids. Wheelchairs are supplied where necessary and are repaired and replaced throughout the lifetime of the disabled person. For the fitting of artificial limbs the disabled persons are sent to the Auckland Artificial Limbs Centre for a period of from 6 to 8 weeks for the fitting and training in the use of the artificial limbs. Persons wishing to undertake vocational training make their own arrangements with the polytechnic.

The compensation **cash benefits** for temporary and permanent disability and death are shown in Table 15.10 below.

Table 15.10 Cash benefits for work injury

Temporary disability benefit (TDB)	Permanent disability benefit (PDB)	Survivors Benefits
After a 5 day waiting period 70% of earnings subject to minimum of WST 35 per week up to maximum of WST 400 per week. The 5 days are payable when incapacity lasts more than 5 days. The maximum duration is flexible.	For 80% or more disability: a pension for life or until recovery of 70% of earnings for 100% disability and proportionate amounts for lower assessments. For less than 80% disability: a lump-sum of up to WST 8,000 for total disability and proportionate amounts for partial disability according to assessed degrees of incapacity.	A lump-sum of WST 20,000 for distribution to totally or partially dependant survivors plus weekly compensation of 70% of full wages for up to 4 years subject to a WST 200 a week maximum. Trust funds for child dependents

Source: ACC – Annual Report 2003

For specified conveyance accidents the same benefits apply except that no TDB or pensions to survivors are payable. The ACC has progressively extended pensions protection linked with lump-sums in the case of serious permanent disablement and death although there is a general preference for lump sums rather than pensions amongst a proportion of beneficiaries and their family members. Generally, such lump-sums are quickly spent and few are carefully utilised for long-term income purposes with the support of pension payments for a limited period, as in the case described in Box 15.2.

Box 15.2 Tito’s repair and brick businesses-survival strategies after permanent total disablement

Tito was a school-teacher in Apia aged 27 when he suffered a fractured spine and complete paralysis of his upper body in a car accident in 1986. Under the ACB legislation he was then entitled to a pension of 60% of earnings which amounted to WST 44.94 per week payable for 3 years (the current law prescribes pensions for life in such cases) and a lump sum of WST 2000 in addition to medical care and rehabilitation. Confined to a wheelchair, Tito had every right to expect family support as the local community and family structures in Samoa (Fa’a Samoa) are very strong but he also took some positive steps to ensure he utilised the financial support to build up his capacity to support his family. These steps included purchase of a range of hand tools so that he could become a general repair man fixing lawn mowers and other household appliances, and establishing a brick manufacturing business. This is situated in his village where raw materials are available and is run by his brother and other relatives. The equipment was designed and produced by the local polytechnic which charged Tito WST150. The first bricks produced were used to build his house which is an important asset he was determined his family should enjoy. ACC will provide rehabilitation assistance throughout his lifetime which is mainly in the form of repairs or replacement of his wheelchair. In fact, Tito has become an accomplished repairer of wheelchairs so can rehabilitate older chairs for his personal use.

Claims after **fatal accidents** entail detailed enquiries into family relationships in order to determine whether any family members were totally or partially dependent as this is the basis for entitlement. The Act contains a broad

definition of dependants in the Act as “*any other person who had a legal duty to support in whole or part at the time when the dependency had to be determined and includes any other person whom he might then reasonably regard, or have regarded himself, as having a moral duty to support in whole or part, and whom he was then supporting in whole or part, and includes a child of his born after his death, and dependent, totally dependent and partially dependent have corresponding meanings.*” The final decision is made by the Board. Persons who wish for a review of a decision on a claim can request one from the Board and a further appeal lies to the Supreme Court.

The compensation for minors is paid into Trust Accounts with the guardian and ACC Manager as co-trustees of the account. As at June 2003 there were 153 trust accounts amounting in total to WST 678,992. The application of the provisions on adult and minor survivors is illustrated by Box 15.3

Box 15.3 Survivor’s benefits put to good use-Julia’s trust fund

Julia was only a few months old when her father was killed at work in May 1990. His wife had moved to the USA and was ruled as neither totally or partially dependent on the deceased, and so was his de-facto wife, a school-teacher and Julia’s mother. All compensation was payable to Julia, consisting of a pension of WST 33.85 per week for 3 years and a lump-sum of WST 20,000. The Board placed WST 2,000 in a savings account and WST 18,000 on fixed deposit. Over the years funds have been released for Julia’s upkeep and school-related purposes. Julia’s mother has never had to worry about the school fees, uniforms and books. Julia is now aged 15 and expenditure so far amounts to WST 19,135 but standing to her credit is the sum of WST 1,802.22 in her saving account and WST 21,751.13 on fixed deposit. Whatever funds have accumulated will be paid out to her at age 18 when ACC’s responsibility ends.

(iv) Accident prevention

Accident prevention is a primary aim of the ACC which works closely with the responsible government bodies - the Department of Labour in the field of workplace safety, and the National Road Safety Committee for specified conveyance accidents. The latter is chaired by the Transport Control Board of the Ministry of Transport, and other members are the Ministry of Police, Ministry of Works and the Ministry of Education. For work-injuries the Safety Promotion Unit of ACC supplies the Department of Labour with a monthly report of all accidents for follow-up and also undertakes very detailed analyses of all accidents (including the time, place, type, causes, profiles of the injured and the nature of injuries). The pattern for some years is that over 90 per cent of work injuries are sustained by male employees and under 10 per cent by female workers whilst the main sectors in order of percentages of accidents are services, construction and manufacturing. These types of regular analyses help to target safety campaigns and to evaluate their impact.

One example is the focus on preventing accidents involving children, in which ACC has had a leading role, having identified the fact that children featured in over 40 per cent of traffic accidents. The subject of road safety was first taught at schools as an experiment and was considered to have contributed to a reduction in the frequency of such accidents to about 25 per cent. A manual has been produced and road safety is now incorporated into the primary school curriculum whilst ACC continues its efforts on a broad front to develop higher safety consciousness at the workplace and in the use of motorised conveyances.

15B.1.4 ACC organisation and operations

(i) ACC vision and mission

Figure 15.1 shows the ACC organisation which is designed to carry out the mandate and functions of the scheme. The ACC has drawn up a Corporate Plan for 2004-2007 which lists the core functions of safety promotion, rehabilitation, provision of compensation and sound investment strategies to maximise returns on investments and assets. The corporate vision for the accident compensation scheme is to become more responsive to the needs of the victims and the community, and the ACC

mission is envisaged to endeavour within its means to reduce the social, economic and physical impact of personal injury by accident covered by the Act.

The Corporate Plan contains a detailed management plan with a series of specific aims, outputs, time frames and performance indicators for the achievement of its objectives in the fields of safety, rehabilitation, compensation, supporting services and the finances of the scheme. For example in regard to claims due emphasis is made on expediting settlements as follows:

- for personal injury claims - 70 to 80 per cent to be settled within 7 working days; and
- fatal claims – 70 to 80 per cent to be settled within 4 to 8 weeks.

The following sections contain brief outlines of the main administrative activities for a contributory scheme of contribution collection and processing of claims and information on the finances of the scheme

(ii) Contributions collection

Contributions are paid and collected from wages by employers and should be remitted to ACC within 7 days of the end of the pay period. The sums payable are transferred according to the employers' preferences at weekly, fortnightly or monthly intervals. The payments are paid in cash or by cheque without any accompanying schedule of employees. ACC accounts staff monitor contribution payments closely to detect under or non payments for prompt follow-up, and can collaborate with the National Provident Fund to check on enforcement problems with particular employers. Surcharges can be applied for late payments. Possibly due to the relatively small contribution levels, ACC has not experienced any significant compliance problems.

(iii) Claims processing

The following Table 15.11 contains statistics of the types of accidents for which claims were made over the period from 2000 to 2004. The main features noted are:

- Work injury and motor vehicle accidents are the largest categories and both show increases in 2003 and 2004;
- The new category since September 2003 of after hours injuries to workers reached 37

cases in 2004 and is likely to increase as the entitlement becomes more widely known; and

- Overall the ACC's responsibilities have increased significantly with the extension of coverage.

Table 15.11 Number of Claims Received by Type 2000-2004

Type of Claim	2000	2001	2002	2003	2004
1.Work injury	89	86	95	113	103
2.Workers injured after hours*	0	0	0	9	37
3.Motor vehicle accidents	89	96	80	110	117
4.Other specified conveyance accidents	5	2	2	9	2
5.Unrelated claims	1	3	0	1	1
Total	183	187	177	242	260

* Since September 2003

ACC has pinpointed the importance of quality service to covered persons and in particular has set performance standards for registration of accidents by the police and employers respectively, and for making and implementing decisions on entitlement. Employers have 5 days to report a work-connected accident and ACC strives to expedite such notifications and those on traffic accidents, but states that there is still room for improvement by employers and the police. Once ACC has received the accident and medical reports the claims investigation unit undertakes an enquiry into the accident, which enables it to confirm the details of the accident

and the amount of earnings stated on the accident report. This unit is then able to process and authorise payment. The Annual Report for the first 6 months of 2003 contains the information that it has achieved an average of 2.5 days to make the first payment compared with a 4 day average in the previous year. This is an acceptable standard and one of a type that is still an aim for many other national worker's compensation schemes.

This excludes fatal accidents as these cases require extensive investigation amongst dependants, who have to be interviewed on the question of financial dependency followed by cross-checking on the subject of maintenance of dependants. Such cases are given priority but take a few weeks to settle.

(iv) *Financing*

The financing of work injury insurance has continued on a sound footing, enabling ACC to extend the coverage and improve cash and medical benefits. Although the two funds have merged, Table 15.12 below contains separate figures which show that the worker's compensation fund had accumulated over WST 39 million at the end of June 2004 whilst the Specified Conveyance Fund had a deficit of over WST 3 million.

The merger of the funds is intended to stabilise the finances in order to meet higher expenditures in the future.

Table 15.12 Income and Expenditure 2003-2004

30.6.2003	Income	Worker's Compensation Fund	Conveyance Fund	Total to 30.6.04
1,390,949	Net levy income	4,271,169	555,165	4,826,334
83,415	Interest	308,461	0	308,461
461,408	Fugalei market	927,896	0	927,896
960,908	Rent & other income	1,823,545	0	1,823,545
2,896,680	Total income	7,331,071	555,165	7,886,235
	Expenditure			
140,797	Compensation	410,721	293,406	704,127
427,352	Building costs	1,059,043	0	1,059,043
302,445	Fugalei market	605,213	0	605,213
530,368	Operating expenses	661,993	535,427	1,197,420
1,400,961	Total expenditure	2,736,970	828,833	3,565,803
1,495,719	Income over expenditure	4,594,101	-273,668	4,320,432
30,767,428	Fund Balance 30.6.03	35,285,559	-3,125,394	32,160,165
32,263,147	Fund Balance 30.6.04	39,879,660	-3,399,062	36,480,598

Source: ACC

15B.1.5 Concluding Remarks

The concept of an accident compensation scheme both for paid employees and for the population as a whole has been carefully established and developed over the years, balancing proposals for wider coverage and improved benefit entitlements with consideration of affordability and feasibility. Both medical and income protection have been progressively enhanced, coverage has been expanded and, considering the social and economic costs and consequences of traffic and workplace accidents, the emphasis on safety promotion and accident prevention as a primary aim has significantly increased the impact of the scheme.

Table 15.12 above shows that the current year started with a total balance of over WST 36 million enabling ACC to look forward to more progress and development in the future in pursuit of its goals for improved protection of the population of Samoa.

15B.1.6 Samoan National Statistics

Table 15.13 Total Formal Sector Employment

Sector	Male	Female	Total
Private sector employees	7,132	5,036	12,163
Public service employees (permanent)	2,119	1,618	3,737
Public service employees (casual/ temporary)	750	509	1,259
Total	10,001	7,163	17,164

Table 15.14 Workforce by Industry and Sex

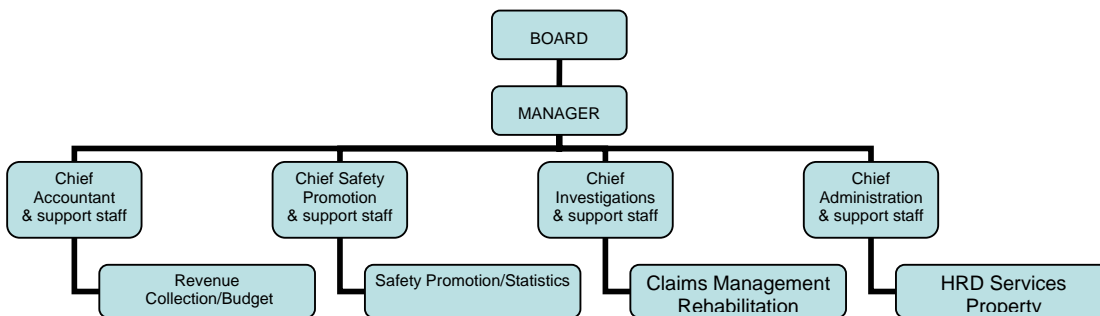
Industry	Male (%)	Female (%)	Total
Accommodation, cafes, restaurants	694 (51%)	679 (49%)	1,373-11%
Agriculture, forestry, fishing	172 (73%)	64 (27%)	236-2%
Building and construction	860 (91%)	87 (9%)	947-8%
Community social and personal services	515 (61%)	328 (49%)	843-7%
Education, welfare	393 (47%)	440 (53%)	833-7%
Electricity, gas and water supply	481 (90%)	53 (10%)	534-4%
Finance, insurance, real estate & business services	693 (54%)	591 (46%)	1,283-11%
Manufacturing	852 (34%)	1,665 (66%)	2,517-21%
Transport, storage and communication	1,280 (77%)	375 (23%)	1,655-13%
Wholesale and retail trades	1,193 (63%)	754 (49%)	1,947-16%
Total	7,132 (59%)	5,036 (41%)	12,168-100%

Source: Labour Market Survey 2000

Table 15.15 Employment Status

Status	Males (%)	Females (%)	Total (%)
Self employed	256 (57%)	199 (43%)	453 (4%)
Paid employees	6,616 (59%)	4,657 (41%)	11,273 (93%)
Paid non-citizens	193 (63%)	114 (37%)	307 (2%)
Unpaid family workers	69 (51%)	66 (49%)	135 (1%)
Total workers	7,132 (59%)	5,036 (41%)	2,168 (100%)

Figure 15.1 ACC Organisation Chart



Chapter 16 Workers' Compensation in Vanuatu

16.1 Background to the mission in February 2005

The aim of this chapter is to extend the understanding of the issues relating to employment injury and workers compensation schemes, and to develop specific proposals for the further development of the existing scheme in Vanuatu. Chapter 15 outlined and elucidated the concepts, principles and practice in the field of employment injury schemes.

16.2. Social and economic information on Vanuatu

16.2.1 Location

The Republic of Vanuatu is an archipelago comprising 83 islands in the western pacific ocean that cover a total land area of 12,189 km² with a total Extended Economic Zone of about 680,000 km². Most of the islands are volcanic in origin with typically high mountains in the centre and fringed by lower coastal zones where most of the population is concentrated. The dispersion of the islands creates administrative difficulties in communication, provision of services and access which is only possible by sea or by air and adds to overhead costs.

16.2.2 Population

The most recent population and housing census was conducted in Vanuatu in 1999, following a ten year census cycle. The census showed the total population was 186,678 of which 49 per cent were female and 51 per cent male. A total of 78.5 per cent of the population resided in rural areas and 21.5 per cent lived in the urban centres of Port Vila and Luganville; the overall average population growth in Vanuatu was 2.6 percent over the ten years since the previous census in 1989 which is a reduction from 3.4 percent and 2.8 percent over the previous two decades. The growth was highest in the urban areas with 4.2 percent and only 2.2 percent in rural areas. Urban growth is now 7.5 percent whilst rural growth is 2.1 percent. This demonstrates the continuing migration from rural to urban areas.

16.2.3 Economic situation

The country has a dualistic economy, with a large smallholder subsistence agricultural sector and a small monetised sector. The monetised sector is based on established plantations, grazing leases and associated trading, manufacturing, banking and shipping services, as well as the country's tourist industry. Nearly all domestic exports are primary goods, the principal ones being coconut products, beef, cocoa, coffee and timber. Following the introduction of commercial laws in the early 1970s, an off-shore finance and banking centre has developed which contributes considerably to Government revenues and is also a significant earner of foreign exchange. Tourism development within the country has a high priority and this sector is a source of substantial revenue from turnover taxes.

Following modest economic performance in recent years, the Monetary Policy Statement (MPS) of the Governor of the Reserve Bank of Vanuatu on 10 February 2005 described improved domestic real economic growth, which is estimated at 3.2 per cent in 2004. Some of the components of the 2004 growth were:

- The agriculture sector 3.5 per cent;
- The services sector 3.3 per cent; and
- The industry sector 1.6 per cent due to improvements in manufacturing and construction.

The improvements in the service and industry sectors are of particular importance for contributory social security schemes, to the extent that employment growth is generated. The MPS referred to the prospects for the improved economic performance to continue, although possibly at slightly lower levels, in 2005.

16.2.4 Formal sector employment

Formal sector employment in 2002 totalled 17,385 persons (35.7 per cent female and 64.3 per cent male) which correspond closely to the total numbers and sex distribution of VNPF

Feasibility Studies

active members of 17,222 in 2003. Details are shown in Tables 1 and 2 below.

The largest employer was the government when government service and education are combined (26 per cent) followed by retail and wholesale trade (15.9 per cent) and domestic service (11.0 per cent). The main source of female employment was domestic services followed by retail and wholesale trade and education whilst for men the first 3 sectors of employment were government services, retail and wholesale trade and construction.

Table 16.1 Formal sector employment 2002

Industry	No. of employees	Per cent	Female %	Male %
Agriculture, forestry & fishing	965	5.6	14.0	86.0
Manufacturing	807	4.6	28.6	71.4
Electricity, gas and water	107	0.6	16.8	83.2
Construction	1,497	8.6	3.0	97.0
Retail and wholesale trade	2,770	15.9	35.9	64.1
Hotels and restaurants	1,300	7.5	44.4	55.6
Transport and communications	1,590	9.1	12.9	87.1
Finance and insurance	367	2.1	53.7	46.3
Real estate & business services	312	1.8	26.9	73.1
Government services	2,513	14.5	29.0	71.0
Education	2,000	11.5	49.0	51.0
Domestic services	1,909	11.0	74.8	25.2
Other community & social services	637	3.7	35.9	64.1
Total Employment	17,385	100.0	35.7	64.3

Source: Statistical Yearbook, National Statistical Office, 2002

Table 16.2 VNPf active members 31.12. 2003

Age group	Males	Females	Total
Under 20	327	371	698
20 – 29	3,535	2,394	5,929
30 – 39	3,565	2,029	5,594
40 -49	2,304	1,229	3,533
50 – 59	886	364	1,250
60 and over	183	35	218
Total Members	10,800	6,422	17,222

Source: VNPf Annual Report 2003.

16.3 Existing formal social security schemes

16.3.1 General

The Vanuatu National Provident Fund and the worker's compensation scheme are the two major formal social security programmes in Vanuatu. In addition, the Employment Act and Public Service Act respectively regulate the employment in the private and public sectors, including certain provisions on medical care, notifications of accidents, sick leave, maternity leave and severance pay.

In the private sector employees with at least 12 months continuous service are entitled to 21 working days sick leave on full pay per year. Maternity leave is prescribed as 6 weeks before and 6 weeks following the confinement at not less than 50 per cent of pay. Employers are required to report accidents as soon as possible to a labour officer, and to provide medical aid to employees and transport to the nearest hospital or clinic. Severance pay for employees with at least 12 months continuous service is at the rate of a half-month's pay for every period of 12 months; this is payable on termination of employment, or retirement at age 55 or later or on resignation after 10 consecutive years service.

Under the process of reviving institutions in the labour field, it was intended shortly after the conclusion of the mission to re-establish the Minimum Wages Board. The Board was expected to approve a proposal to increase the minimum wage from VUV 16,000 per month to VUV 20,000 per month. On the broader labour front, the Labour Advisory Board was also due for re-activation.

In the case of the public service, the sick leave entitlement is 21 days on full pay per year; maternity leave is 12 weeks on full pay for permanent staff and on half pay for temporary employees, whilst medical care costs for permanent and daily rated staff are fully refundable, but not for temporary workers. Permanent staff are entitled to free care by private practitioners if the treatment is not available in the public system

16.3.2 Vanuatu National Provident Fund (VNPF)

(i) Outline of the Scheme

The Vanuatu National Provident Fund (VNPF) is the major contributory social security scheme in Vanuatu. It is a compulsory savings scheme collecting a total of 8 per cent of earnings of formal sector employees, including government staff, shared equally between employers and their employees. The main purpose of the scheme is to increase the value of the contributions collected and to repay the total amounts in the accounts of members on retirement or earlier death. The basic qualification for compulsory membership is that an employee is employed under a contract of service and earns a minimum of VUV 3000 per month. This includes domestic workers.

The VNPF is administered by a tripartite board that comprises the CEO of the Ministry of Finance as the chairman and government representative, Public Sector association elected member, a Registered Trade Union elected member, a Vanuatu Chamber of Commerce member, a Finance and Services representative and the General Manager of VNPF as an ex-officio member.

At the end of 2003 the VNPF had a total of 39,938 member records of which 17,222 were for active members, with females numbering 6,422 and males 10,800 or 37.29 and 62.71 per cent respectively (Annex 1 Table 2). Domestic workers are compulsorily covered if earning at least VUV 300 per month but data on the numbers contributing together with their employers were not available at the time of preparation of this report. The contribution rate was increased from 8 per cent to 12 per cent of gross salary from January 2001 and reverted to 8 per cent from January 2004 to ease financial pressure on employers (particularly the government) and employees; however, some employers continue to voluntarily contribute 12 per cent of salary for their employees. Interest rates declared by VNPF in recent years were 2001 - 1.5 per cent, 2002 - 1.5 per cent, 2003 - 2 per cent and 2004 - 3 per cent.

There are four types of benefits, which consist of the lump sum balance of the account only, as there is no pension or annuity option. The entitlement arises when the member:

- Attains age 55;
- Becomes permanently incapacitated for work;
- Dies (lump-sum plus VUV. 175,000); and
- Emigrates.

Table 16.3 shows the pattern of withdrawals for 2003. Attainment of age 55 was the main category (61.63 per cent), followed by permanent incapacity (16.59 per cent), emigration (13.66 per cent), and death (8.13 per cent). Death benefits are paid to persons nominated by members. There are no provisions for early withdrawals for special reasons, nor are loans or advances provided, which is an unusual feature compared with similar schemes in other Pacific Island countries. This stringent policy emanated from 1998 when there were prolonged pressures by members about unsatisfactory management of housing loans, which resulted in a decision that members could withdraw their balances from the fund. This resulted in a severe depletion of the fund to about 10 per cent of its previous balance. The fund has been gradually restored and by 2002 the total members' credits exceeded the pre-1998 total.

Table 16.3 VNPF withdrawals 2003

Type	Number	Amount VUV.
Old age (55 years)	546	98,873,176
Death	72	17,435,672
Incapacity	147	28,964,252
Emigration	121	69,104,500
Total Members	886	214,377,600

Source: VNPF Annual report 2003.

Table 16.4 shows the fund growth since 1987 and the active membership. This has declined to 17,222, the lowest level since 1991, which is attributed in the VNPF 2002 Annual Report to non-compliance whilst another factor is thought to be increased unemployment amongst the membership.

Table 16.4 VNPF Fund Growth 1987-2003

Year	Annual Contribution (VUV. '000)	Total Members' Credits (VUV. '000)	Active Contributors
1987	87,000	80,421	11,793
1988	255,289	321,658	13,655
1989	260,871	568,856	14,281
1990	307,217	867,872	15,104
1994	418,027	2,398,625	20,084
1997	489,246	3,810,020	19,566

Year	Annual Contribution (VUV. '000)	Total Members' Credits (VUV. '000)	Active Contributors
1998	497,214	965,116	16,163
1999	436,825	1,433,904	22,865
2000	725,986	2,114,368	26,976
2001	1,023,903	3,052,221	18,607
2002	1,084,789	3,991,006	17,297
2003	1,005,210	4,832,151	17,222

Source: VNPF Annual report 2003.

(ii) Administrative System

Since the VNPF has an established administrative system which could be utilised if a worker’s compensation fund is set up to receive contributions from employers. This section contains a brief outline of the relevant features of the contributions and benefits systems. Contributions are paid monthly by employers, who are required to deduct the employee contributions from their wages or salaries for the month concerned, and to remit both the employees and their own matching contributions to VNPF by the last day of the following month. The employer has to complete a contribution schedule, or supply an equivalent summary record, to the VNPF so that the amounts can be reconciled and recorded in the individual accounts. A late payment surcharge of 5 per cent of the amount due is levied for each month, and part of a month, that the amount is overdue. VNPF inspectors make regular inspections to check personnel and pay records and also visit employers who are defaulting in payments to the scheme. Annual statements of account are sent directly to members so that they can check on the progress of their accounts. Benefit claims are carefully checked and payments are made into bank accounts.

The VNPF has identified a number of problems that inhibit its ability to enforce the legislation:

- Inability of the government to comply with its contribution responsibility to the fund; this poor example serves to encourage other employers to default on their responsibilities;
- Reluctance on the part of the legal system to allow prosecution of debtors to the fund, which serves to encourage non-compliance when breaches of the law do not attract any penalties;
- Reluctance of government and other agencies to share information with VNPF to assist in compliance and enforcement; and

- Political interference by exerting pressures on officers of the board.

VNPF is therefore required to undertake a 100 per cent inspection programme to verify its contributor base, VNPF has carried out a few prosecutions in order to establish deterrents that promote higher levels of voluntary compliance. Despite the concerns of the VNPF on this issue, the actual compliance rate appears to be reasonably high given that the official figure of 2002 was 17,385 employees in the formal economy and the active contributors to VNPF in 2003 was 17,222. However, concerns remain about the number of direct complaints from eligible contributors, often after VNPF has delivered their annual statements of account, that their employers are not contributing to the fund or are under-paying contributions after deducting full amounts from wages and salaries.

16.3.3 Health Services

The health infrastructure in Vanuatu is quite well-distributed in terms of services in the main population centres although the country suffers from lack of suitably trained personnel and donor support is used to provide additional expatriate medical personnel. There are 5 central and district hospitals with total bed capacity of 360, 22 health centres, 77 dispensaries and 187 aid posts. The major problems are shortages of trained medical personnel and the delivery of adequate services to a population distributed over such a large area.

Health services are funded by the government although user fees are charged for hospital inpatients in the newly emerged private clinics and overseas referrals. Patients at government hospitals able to pay meet a registration fee of 200 vatu and receive medical care and medicines free. In-patient care is charged according to the type of treatment required. Persons referred for overseas care have airfares paid and meet all other costs themselves except civil servants, for whom government pays.

The government spends about 4.3 percent of GDP on health care or about 12 percent of the government budget outlays. WHO estimated that in 2001 about 64 percent of health expenditure was funded by the government with the remaining 36 percent funded by user fees or out-of-pocket expenses.

16.3.4 **Worker's compensation scheme**

(i) **Background Information**

The Workmen's Compensation Act 1987⁹⁰ was brought into force from 2004 by the Labour Department, which was engaged in an urgent re-organisation of the Department, as a speedy solution to the unsatisfactory situation then prevailing of resolving work accident claims in accordance with the worker's compensation legislation of the Solomon Islands. This was familiar to the main insurance companies involved and was generally accepted as a stopgap measure pending action to enact legislation. However, the 1987 Vanuatu legislation itself was not previously adopted, due to concerns that it was not an appropriate type of scheme and this led to a request to ILO in 1999 for design of a social insurance scheme for work injuries.

Following consultations between an ILO expert and certain stakeholders, including the Vanuatu National Worker's Union, a draft Worker's Compensation Bill 1999 was submitted to the Government of Vanuatu in February 2000. This was not taken up at that time for reasons not now apparent; however, it became clear during a meeting with the Minister of Internal Affairs and his senior officials that the present government accords a high priority to a review of this Bill with a view to its early adoption and implementation.

(ii) **Overview of the Workmen's Compensation Act 1987**

Under the 1987 Act an employer is liable for compensation in respect of an accident suffered by an employee "*arising out of and in the course of his employment*". It should be noted that the Act makes no reference to medical care for injured workers or to cash payments during temporary disability. Under the Schedule to the Act the amount for compensation is as follows:

- For death or total disability three times the annual wages of the employee subject to an annual limit of 2 million vatu (the schedule

defines total disability and annual wages); and

- The amounts payable for partial disability are calculated as a percentage of the amount payable for total disability in accordance with the schedule of injuries and the percentage degree of incapacity.

All employers in Vanuatu are required to provide compensation for all employees and to hold appropriate insurance policies that cover their workers. There are some exemptions from the mandatory insurance provisions and they relate to government, family businesses that employ family members, domestic workers and in the fishing industry, where payment is by share of the catch.

There are two main life insurance companies in Vanuatu, QBE Insurance and the Australian Family Assurance (AFA). Whereas QBE concentrates mainly on worker's compensation, most life policies are underwritten by AFA. There are 5 local insurance companies operating in Vanuatu, including the two major companies and one headquartered in New Zealand. In addition to these companies there are insurance brokers or agents who provide insurance packages for clients through the major companies. It is understood from discussions and local knowledge that only 60-70 per cent of employers have complied with the law and taken insurance cover. QBE includes as standard features:

- Reasonable costs for funeral expenses including transport of the body to the home island;
- Commuting accidents sustained on the way to and from work;
- Reasonable medical costs incurred in Vanuatu; and
- Common law liability up to VUV 10 million.

Information was supplied to the Department of Labour on the rating structure in force which lists 44 categories of employees. Rates vary between 0.15 per cent of remuneration for administration and clerical workers to 10 per cent for stevedores with categories such as teachers rated at 0.55 per cent, electricians at 4.5 per cent and saw milling at 8 per cent.

⁹⁰ The Term Workmen's compensation is now dated and reflects the age of the original legislation. The term has been changed to Worker's Compensation to reflect the inclusion of female workers.

(iii) Assessment of the Scheme

Table 16.5 contains the limited available data on claims received by the Labour Department over the period from 2000-2005 (prior to the gazetting of the Act, from 2004 the Solomon Island's legislation was used to determine entitlement). The recorded accident total has risen gradually from 53 in 2000 to 86 in 2004. Of the grand total of 333 claims only 3 were made by female workers. Temporary disablement cases numbered 305, permanent disablement 27, and there was 1 fatal case. It is probable that other claims were made directly to insurance companies or settled directly by employers without reference to the Labour Department. Amongst the permanent disablement claims were a number which had faced lengthy delays of several months before payment was made by the insurance companies.

Table 16.5 Worker's compensation claims received by Labour Department 2000-04

Year	No. of claims by sex of workers injured			Temporary disablement	Perman-ent disablement	Fatal Cases
	Men	Women	Total			
2000	53	-	53	50	3	-
2001	61	2	63	55	8	-
2002	64	-	64	59	5	-
2003	67	-	67	61	6	-
2004	85	1	86	80	5	1
Total	330	3	333	305	27	1

Source: Department of Labour

The Financial Service Commission (FSC) is responsible for financial regulation of insurers in terms of reserves, risk, investment guidelines etc, and the compliance and workplace safety elements of the scheme are the responsibility of the Department of Labour. The FSC explained that the insurance sector was not yet adequately regulated and the current strategy was to build up capacities of the FSC, and to draft an Insurance Bill with a view to its early submission to Parliament. It appears that insurance companies are not yet required to submit detailed insurance and financial data for analysis and follow-up. Consequently, there is a lack of information on which to assess prospects for upgrading benefits within the present outlays of employers on insurance premiums. It is understood that premiums have remained largely unchanged in recent years, suggesting that insurance companies have obtained satisfactory profit levels in this branch of insurance.

The existing system has a number of weaknesses and it is evident that the responsible authority for workers occupational health and safety, and the worker's compensation scheme (Department of Labour) faces severe constraints in carrying out its responsibilities, due to lack of suitable management information and limited resources to enforce legislation such as the Health and Safety at Work Act and the Workmen's Compensation Act. As a result, the department is currently unable to advise the government on issues such as:

- The number of workers with Worker's Compensation cover and the number without;
- The identity of employers who are in breach of the Worker's Compensation legislation;
- The claims patterns and types of workplace injuries;
- The benefits provided for the range of injuries by the insurance companies;
- The average settlement periods for different types of claims;
- Employers with high rates of claims for injuries;
- Details of all workers who have died or been permanently disabled in the workplace;
- The income, expenditure, cost of administration and profits made from worker's compensation insurance; and
- Development of comprehensive health and safety improvement strategies based on injury patterns and analyses of workplaces with high levels of accidents and illness amongst employees.

As a system providing medical and income protection, the current scheme in Vanuatu has some serious deficiencies, including

- No provision for medical care;
- Payment of lump-sums for long-term contingencies, instead of pensions as prescribed by relevant ILO standards⁹¹ (explained in section 3.4.4) ; and
- No framework for governance through the groups most concerned - the employers, workers and government.

⁹¹ The main relevant ILO Conventions are the Social Security (Minimum Standards) Convention , No.102 of 1952 and Benefits in the Case of Employment Injury, 1964 Convention 121 of 1964

In most countries, an employer liability scheme of this type was usually the first stage of worker's compensation insurance as its implementation was relatively straightforward, with the government department in an oversight role and the responsibility for each employer to provide compensation. The introduction of a worker's compensation scheme was a significant step forward under the doctrine of employers' liability for no fault compensation (usually with no right to sue for damages). However, employer liability schemes are essentially limited as they impose liabilities on an individual basis and consequently are framed so as not to exceed the financial capacities of the employers within the scope of the legislation. Compulsory insurance with a private insurance carrier is intended to ensure that liabilities are met but does not alter the essential principle of the scheme. This means that a balance has to be struck in worker's compensation schemes between, on the one hand, the needs of injured workers for comprehensive medical care, including rehabilitation in certain cases, and adequate cash benefits throughout the contingency; and, on the other hand, the financial capacity of the average employer subject to the legislation. This is equally the case where fatal accidents occur. For example, such schemes do not provide pensions to persons who have lost their source of income due to permanent disablement or death and instead pay lump-sums, which are normally spent quickly leaving the persons concerned relying on the traditional family support or government social assistance. This is particularly unfortunate for widows and children who are left with very limited or no resources for long-term support in replacement of the earnings lost through the work-related accident.

Consequently, countries wishing to improve standards of protection and to conform more closely to the provisions of relevant ILO Conventions have found it necessary to change from individual employer liability to pooling of risks in a social insurance fund. This means that employers are compulsorily insured under the new scheme and are required to pay contributions related to the payroll to the new fund which assumes liability to meet claims in respect of work-related accidents. The scheme can be designed to channel all resources on the provision of adequate benefits and the overhead costs of administration of the scheme. This type of scheme may also support accident prevention in various ways subject to appropriate provisions

in the Act. The overall supervision usually is through tripartite boards which ensure that the employers and workers subject to the legislation have a role in the scheme's management and development in contrast to the operations of employer liability schemes.

The trend to convert employer liability schemes into social insurance schemes has developed very widely in all types of countries, both large and small, developed and developing; for example, there has been widespread adoption of social insurance techniques in the English-speaking Caribbean countries with many similarities to Vanuatu as regards size of formal sectors and levels of economic development. The worker's compensation schemes in these countries are able to conform closely to the relevant ILO standards outlined above and to provide affordable and adequate protection for victims of work-connected accidents. In the South Pacific Samoa has taken this step and has administered an accident compensation scheme for over 25 years which not only provides compensation for work injuries but plays a positive role in accident prevention in that country.

(iv) *Relevant ILO Standards*

Countries that have not ratified particular ILO Conventions may use the concepts and principles as guidelines when establishing social insurance schemes for this contingency. The term "employment injury" is used in recent Conventions in preference to worker's compensation. Some of the main principles in this branch of social security are:

- Employment injury protection must be financed by employers as a continuation of the responsibility for workplace safety;
- Coverage should be at least half of the national workforce, or 20 per cent of all residents;
- The benefits shall comprise medical care in respect of a morbid condition and cash benefits;
- Eligibility for benefits may not be made subject to the length of employment, the duration of insurance, or the payment of contributions; however, a period of exposure may be prescribed for occupational diseases;
- Benefits shall be provided throughout the contingency, except that in respect of incapacity for work the benefit need not be

Feasibility Studies

- paid for the first 3 days in each case of suspension of earnings;
- Benefits for longer-term contingencies, such as permanent disability and survivorship, should be in the form of periodical payments, payable throughout the contingency (with an exception for minor degrees of disablement for which lump-sums may be paid);
- Rates of such benefits shall be reviewed where, following substantial changes in the general levels of earnings, these result from substantial changes in the cost of living; and
- Minimum standards for benefits (Convention No.102) include 50 per cent of lost wages for an eligible worker with a family (spouse and 2 children) and for a surviving spouse with 2 children, 40 per cent; these rates were increased to 50 and 60 per cent respectively by Convention No. 121.

Medical care

In view of the importance of medical care in any worker's compensation scheme, the scope of medical benefits prescribed in the ILO Conventions should be noted. Medical care should be provided for the purpose of " .. *maintaining, restoring or improving the health of the person protected and the ability to work and to attend to personal needs* "(Article 34 of the Social Security (Minimum Standards) Convention, No. 102 of 1952). This Convention provides that where a country has made a declaration under Article 3 that its economy and medical facilities are insufficiently developed, it may be granted a temporary exception from the provisions in Article 34 paragraph 2 and the medical care under the employment injury branch should include at least:

- general practitioner care, including domiciliary visiting;
- specialist care at hospitals for in-patients and out-patients, and such specialist care as may be available outside hospitals;
- essential pharmaceutical supplies as prescribed; and
- hospitalization where necessary.

This list together with the provision of artificial limbs, when prescribed by a medical board, constitutes the minimum range of medical benefits to be provided under an employment injury scheme. The Social Security (Minimum

Standards) Convention and the Employment Injury Benefits Convention, (No. 121) of 1964 stipulate the principle that the medical benefits shall be provided *throughout the contingency* and free of charge to the insured workers who have suffered an accident or are diagnosed as suffering from an occupational disease.

(v) *Accident prevention and rehabilitation*

Provisions of Convention No.121 (Article 26) require actions on accident prevention and rehabilitation of accident victims. On the latter, countries are required to provide rehabilitation services which are designed to prepare a disabled person wherever possible for the resumption of previous activity, or, if this is not possible, the most suitable alternative gainful employment, and to take measures to further the placement of disabled person in suitable employment. These two functions of support for prevention, and for programmes of medical and vocational rehabilitation are important features of modern social security systems, and another improvement that may result from converting the employer liability scheme into a social insurance system.

(vi) *Stakeholder's comments*

During the mission meetings were held with key stakeholders on the current workers compensation scheme and the draft Workers Compensation Bill, 1999.

The Chamber of Commerce had limited information on the worker's compensation scheme and on issues such as the extent of insurance coverage amongst its members but in view of the importance of the measure the Chamber requested that it was kept informed of any further developments. The Vanuatu National Workers' Union had participated in consultations with the ILO expert in 1999 and was fully informed about the objectives of the draft Bill. The main points stressed at this meeting were:

- at present, claims were processed too slowly;
- profits of insurance companies were remitted out of the country and lost to the workers compensation system; and
- new legislation was needed which raised benefit standards including the provision of pensions for dependants in fatal cases.

At a meeting with NGOs the significant differences between employer liability and social insurance schemes for work injuries were outlined with the emphasis on gender issues. The improved protection provided by pensions compared with lump-sum payments was explained, and the limited duration of the survivor's pensions was discussed as another issue to be resolved. There was unanimous support for amending the Bill to include domestic workers. The consensus of the meeting was that a workshop should be held for the purpose of a thorough review of the Bill, if financing could be obtained, with the aim of developing a more effective scheme that takes gender issues fully into account.

16.4 Development of a social insurance scheme for worker's compensation

16.4.1 Introduction

Whilst the existing scheme could be improved through stricter enforcement of the legislation, widening of coverage, closer monitoring of claims processing by insurance companies, updating levels of compensation, and coordination with enforcement of OSH legislation, such changes do not address the fundamental deficiencies of the employer liability system or raise the standards of medical and income protection. This requires the use of social insurance techniques of pooling the available resources as already clearly recognised by the government. Therefore the draft Bill which was drawn up at the request of government in 1999, and after consultations with stakeholders, is the subject of this section.

16.4.2 Workers Compensation Bill, 1999

(i) Outline of the Scheme

A copy of the Bill is provided at Annex 8. This is a comprehensive piece of legislation for the establishment of a social insurance scheme under the responsibility of a Workers Compensation Board. The functions of the Board are to provide compensation to workers and their families in respect of work-related accidents and to promote workplace safety and accident prevention. For these purposes the Board is to set up a Worker's Accident Compensation Fund and a Workers Compensation Board General Fund. The basic

concept is of a "no-fault" system excluding issues of negligence in the interests of speedy settlement of claims with no right to sue employers for damages. Key features are the objectives of the scheme, the system of governance, coverage, scope of protection, financing, the medical and cash benefits, and provisions on the administration of the scheme.

(ii) Objectives

Section 3 states the purposes of the Act as:

(a) to make provision for compensation of workers who suffer personal injury caused by employment-related accidents, or who suffer illness caused by occupational diseases, and of certain of their dependants in the event of death resulting from such accidents or diseases; and

(b) to promote the prevention of employment-related accidents and occupational diseases.

(iii) Governance

As prescribed in Part II, the Board is to have the status of a statutory board operating as an autonomous body answerable to the Minister who is defined as the Minister responsible for the administration of the Act. The Board is to comprise 3 members selected on a tripartite basis, and 4 other persons with expertise in the field, all to be appointed by the Minister for terms of 3 years. The Minister also is responsible for the appointment of the Chairperson and Deputy Chairperson.

Part X on Financial Provisions stipulates that both an Annual Report and the Accounts audited by the Auditor General shall be laid before Parliament. Rights of appeal against decisions of the Board are provided for in Part VII. An Appeal Authority is to be set-up to determine appeals and further appeals may be made to the Supreme Court on questions of law.

(iv) Coverage

Section 8 of the Bill covers the private sector, government departments, statutory bodies, and public and local authorities. Employee coverage is specified for persons working under a contract of service, members of the police, the prison service, members of cooperatives and persons working overseas for an employer in Vanuatu. However, outworkers and domestic workers are excluded together with persons employed by his or her spouse and persons in casual employment.

(v) *Scope of protection*

The main basis for compensation is that the employee has suffered a personal injury arising out of and in the course of the worker's employment. To avoid doubt and facilitate approval of claims, the Bill specifies that accidents sustained in the course of employment will be treated as also arising out of that employment, and contains a series of provisions clarifying that entitlement in particular situations, such as where persons are injured whilst travelling between workplace and home by transport provided by the employer, or whilst acting in an emergency, supposed or actual, and may have contravened safety rules and procedures in the process. The main provisions are in Sections 4 to 6, and Section 7 extends liability to occupational diseases that are identified in regulations under the Act.

The provisions on accidents sustained during travelling do not include commuting accidents occurring whilst travelling in personal or other transport not authorised or provided by the employer. Worker's compensation schemes may exclude these or extend coverage subject to qualifications that rule out accidents that occur during deviations from such journeys. Even then worker's compensation schemes find actual implementation of such provisions quite demanding due to the numbers of such accidents, and the number of problem cases where disputes occur on issues such as the variations in routes for personal reasons.

(vi) *Financing*

The Bill in Section 16.4.3 stipulates that employers will pay premiums of not less than 1 per cent and not more than 4 per cent in accordance with regulations on the subject, and that the rates will be fixed having regard to the nature of the work, safety hazards, and health risks of that work. Furthermore, the Bill states that the rating system will include payment of no-claim bonuses and penalties according to the claims experience of each employer. This type of rating system provides financial incentives for employers to reduce accidents but is technically more difficult to administer. Most developing countries prefer to levy uniform rates which are easier to administer, although this results in subsidies from enterprises in less risky sectors for the costs incurred in sectors with higher risks and claims patterns.

The Board will operate the financial system through the use of a Worker's Accident Compensation Fund into which the contributions will be paid, and a Worker's Compensation Board General Fund.

(vii) *Benefits*

Medical care is the subject of Part VI which provides that the Board shall reimburse expenses, in accordance with scales prescribed in regulations, incurred by injured workers for medical treatment in Vanuatu authorised by a doctor consisting of ambulatory and in-patient care, drugs, and artificial limbs.

Cash benefits for temporary incapacity are laid down as $66 \frac{2}{3}$ per cent of the worker's earnings. The Board is responsible for payment from the second day following the day of the accident, as the employer is required to pay wages for the days of the accident and the following day. Two-thirds of the earnings is the standard for **total permanent disablement** with lower assessments receiving the appropriate percentage of that amount. Pensions are payable for assessments of 25 per cent or more but only for a maximum period of five years. Persons entitled to permanent disablement pensions have the right under section 30 (4) to request payment of up to 25 per cent as a lump-sum which means that the Board would pay an amount equivalent to 60 months of the amount so capitalised, and reduce the monthly pension accordingly. For assessments below 25 per cent lump-sums are payable equal to 5 years payments.

Example 1 Mr X suffers total disablement and as his earnings were determined as VUV 30,000 per month his pension is VUV 20,000 per month. Under section 33 if this beneficiary requires constant attendance for the necessities of life on a long-term basis, he may be awarded a 25 per cent increase to pay for constant attendance. In the event that his injuries were less serious and were assessed as 50 per cent disablement, the monthly pension rate would be VUV 10,000. Where the disablement is minor, such as 5 per cent, the benefit is paid as a lump sum which would be 60 months benefit at VUV 1,000 per month or a total of VUV 60,000.

In the case of deaths from work-related accidents and diseases, for primary dependants (widow or widower and children) conditions include financial dependency on the deceased at

the time of his/her death and, in the case of the surviving spouse, that he or she was not at the date of death of the deceased ordinarily gainfully employed for more than 30 hours per week. If so wholly or mainly dependant, the widow or widower can qualify for 60 per cent of the maximum amount, and a child 20 per cent which increases to 40 per cent if a full orphan. There is also provision in section 34 (11) for covered employees to nominate a person or persons to receive compensation in the event of their death from a work-related accident (but this appears to be inconsistent with the definition of primary dependants and it is proposed in section 4.2.2 that this provision should be deleted). The maximum amount for all survivors' benefits is defined as the sum which was payable to the deceased if he or she was assessed as totally and permanently disabled at the date of death or would have been so assessed at 100 per cent disabled at that date. The pensions to widows and widowers are payable for a maximum period of 5 years but

- cease on remarriage; and
- are not payable for any period during which the widow or widower is ordinarily gainfully employed for more than 30 hours per week.

“*Spouse*” is defined to include legal marriages and de facto relationships. Child pensions are limited to whichever is the earlier of age 21 or the expiry of 5 years and are not payable upon the marriage of the child or for any period during which the child is ordinarily gainfully employed for more than 30 hours per week.

Example 2 On the death from a work-related accident of Mr Y the maximum amount for all survivor pensions will be $66 \frac{2}{3}$ of his monthly earnings of VUV 45,000 which is VUV 30,000. Assuming the following primary dependants, the allocations of the maximum amount will be:

- widow - 60 per cent or VUV 18000 per month;
- child 1 aged 18 20 per cent or VUV 6,000 per month,
- child 2 aged 12 20 per cent or VUV 6,000 per month,
- child 3 aged 6 20 per cent or VUV 6,000 per month; and
- as the initial total is VUV 36 000, the above pensions are reduced by one-sixth to VUV 15,000 for the widow and VUV 5,000 for

each child. When child 1 ceases to be eligible at age 21 or earlier the remaining pensions would be recalculated to give the actual percentages of 60 per cent and 20 per cent respectively to the widow and the two younger children.

Under section 37 (4) the Board has powers to take action to ensure that child pensions are applied for the maintenance, education, advancement or benefit of the children concerned.

As illustrated above, where the total of the survivor pensions would exceed the maximum amount they are adjusted proportionately so as not to exceed the maximum sum payable. Other relatives who meet the condition that they were wholly or mainly maintained by the deceased at the date of his or her death can only qualify if the maximum amount is not already payable at the date of first commencement of benefit entitlement. A “relative” is defined in section 38(5) as a parent and such other person as is prescribed by regulation. The most obvious situation is that the deceased worker was unmarried and supported his or her parents in which case the entitlement of each qualified person is to 40 per cent of the maximum amount for a maximum period of 5 years but the pensions:

- cease on marriage, and
- are not payable for any period during which the relative is ordinarily gainfully employed for more than 30 hours per week.

Where pensions are payable to both primary dependants and other relatives and would exceed the maximum amount, the pensions of the relatives are to be reduced proportionately to keep the total within the limit.

(viii) Administration

Under Part XI the Board is authorised to appoint a Chief Executive and staff members including inspectors to enforce the Act; provisions on offences and penalties, prosecutions and civil proceedings are listed in sections 87-89. Section 22 authorises the Board to delegate any of its functions to an agent and Section 72 refers to the Board's right to appoint agents for the collection of contributions and the possibility of appointing the National Provident Fund Board or any other organisation to carry out this function.

(ix) Actions for damages

Section 90 rules out actions for damages in respect of work-related accidents. This type of provision is found in some countries in furtherance of the “no-fault” doctrine under which accidents are compensated without regard to possible negligence issues that may arise.

16.4.3 Initial proposals for amendments to the bill

The Bill has been reviewed in order to identify changes which should be considered by stakeholders during the review of the legislation and the proposed scheme. These are initial changes as other changes may be proposed and incorporated at later dates after review by stakeholders, and also it may be advisable to alter certain parameters in relation to efforts to devise an affordable and effective scheme. In any case, the finalisation of the legislation will be undertaken progressively in accordance with decisions on issues such as the possible use of agents, in particular VNPF, to collect contributions and the findings of an actuarial valuation of the scheme and any options that may be proposed for consideration.

The various proposals are intended:

- (a) to extend coverage to domestic workers and to include additional provisions on commuting accidents;
- (b) to improve benefit standards, in particular by removing the 5 year time limit on pensions for permanent disablement and for survivors, and by including rights to overseas medical treatment under special circumstances and to a funeral grant in respect of deaths from work-related accidents;
- (c) to strengthen governance by changes in the composition of the Board and the method of appointing the members and the structure of the Appeals Authority; and
- (d) to improve the technical structure of the Bill by including more flexible provisions on the contributions system and by adding more definitions of key terms.

The following changes are proposed at this stage and the text of the Bill at section 16.7 is amended accordingly (shown in bold).

(i) Section 2. Proposed Changes

“Child” The original definition refers only to persons under age 21 whereas section 34 (4) uses the maintenance condition. The proposed change includes relationship to the deceased in addition to maintenance and excludes a disabled child certified as incapable of supporting herself or himself from the age limit so that benefit may be payable indefinitely. Insert **“insurable earnings”** means the earnings on which contributions are paid to the Board

Insert **“insured person”** means a person who is insured under this Act.

“Minister” This definition is revised to state that the Minister is the Minister responsible for labour affairs so as to facilitate cooperation with the Labour Department in discharge of the Board’s responsibilities for supporting accident prevention and coordinating with OSH activities under this department.

“Nominee” Deletion of nominee is proposed and of the provision in section 34 for nomination of persons to receive death benefits as this conflicts with the principles laid down for primary dependants to qualify for compensation as persons who have lost their means of support.

Insert definitions of **“permanent partial disablement”** and **“permanent total disablement”** as these are terms used in the text concerned with entitlement to benefits.

Insert **“relative”** means a parent and brother or sister of the insured worker. This is advisable as the term is used in section 38 in connection with entitlement to long-term benefits and should be defined. “Parent” is defined in section 34(10).

Insert **“remuneration”** has the meaning assigned to it in section 72(3) since this is a key term for contribution purposes.

Insert **“Schedule”** means a Schedule to this Act; which will be required if a schedule of injuries is attached to the Bill similar to the schedule to the present Act A schedule of occupational diseases may also be required.

Insert a definition of **“temporary incapacity”** to mean a condition resulting from an employment injury which requires medical treatment and renders an employee, as a result of such injury,

temporarily incapable of doing the work which he was doing prior to or at the time of the injury.

6(b) This section covers accidents sustained during certain types of journeys during the working day including travel between home and work but the latter is subject to the transport being provided by or authorised by the employer. An additional provision is proposed to include accidents sustained whilst commuting otherwise than when using employer provided or authorised transport, but the scope of the provisions on travelling are made subject to use of a direct route without deviations. This is a typical approach to accidents sustained whilst using personal transport which give rise to significant numbers of claims and also a disproportionate number of disputes as to liability; therefore the introduction is deferred for a minimum of 3 years to allow for building up of administrative capacities whilst the Board implements the new scheme including the risk and experience rating contributions system.

8(a) The words “*or a domestic worker*” should be deleted since the total number of persons in this category was 1,909 in 2002 constituting 11 per cent of the formal sector workforce, of whom almost 75 per cent were female (see Table 1). The principle of compulsory coverage by VNPF is already accepted provided that the earnings reach the minimum of VUV 3,000 per month.

11 The term “*relevant earnings*” is defined in general terms in this section but it is more equitable to determine earnings for benefit purposes by calculating an average over a recent period. It is proposed that sub-section (1) should be revised to state that the relevant earnings shall be calculated at an average daily rate equal to one-thirtieth of the average monthly earnings determined by dividing the sum of the insurable earnings during the continuous period of 6 months immediately preceding the month in which the employment injury occurred, by the number of months for which such contributions were paid or were payable.

13(1) The Bill provides for appointment of Board members, including three from government, employers and workers respectively, by the Minister, from nominations received from “any organisation”, and for other members to be selected for their expertise and experience in legal, commercial, insurance,

business, or administration matters. However, in order to strengthen governance it is proposed that the system of establishing the VNPF Board should be used as follows:

- (a) Two persons nominated by the President of the Vanuatu Chamber of Commerce on the advice of the Council of Chamber of Commerce;
- (b) Two persons representing employees to be elected by the National Union of Labour and the Public Service Association respectively;
- (c) Two persons representing the government nominated by the Minister after consultation with the Ministries of Internal Affairs and Health respectively; and
- (d) The General Manager as an ex-officio member.

Provided that in making his or her appointments the Minister shall ensure that the Board includes representatives of both men and women. The inclusion of the Ministry of Health is advisable because of the medical benefits. If the Ministry of Finance is to be included this arrangement may require review.

13(2) It is proposed that instead of the Minister appointing the Chairperson and Deputy Chairperson, these appointments should be made by elections amongst the Board members.

18 (3) (c) The title of the legislation was changed to the Health and Safety at Work Act on the understanding this is the current legislation in this field.

19 The term “*General Manager*” should be substituted for “*Chief Executive*” in this section (and elsewhere in the Bill) to conform to the practice of VNPF.

27 (2) This section is revised to clarify which days of incapacity should be compensated.

30(2) It is proposed that this section should be amended to provide for entitlement to permanent disablement pensions payments either for the duration of a provisional disablement assessment or for life where the assessment is final.

30(4) It is proposed that this sub-section on capitalising part of a pension award should be deleted in the interests of maximising pension payments.

Feasibility Studies

30(6) This sub-section changed to 30(5) will require amendment on actuarial advice concerning the method of calculating lump-sums for partial disablement cases.

34 It is proposed that sub-sections (11) to (13) should be deleted as not consistent with the provisions for dependants to receive financial support.

34A It is proposed that a new section should be inserted providing for the scheme to pay a funeral grant on the death of a worker from a work-related accident to a surviving spouse, or a son or daughter, or a parent or, in the absence of such persons, any other person who paid for the funeral. The amount of the grant may be fixed from time to time by the Minister.

35 (1) It is proposed that pensions to widows should be payable for life or until re-marriage or co-habitation with another person as a spouse, subject to the limitations specified in sub-sections (2) and (3). The inclusion of co-habitation appears to be consistent with the definition of spouse which extends to de facto relationships ensuring that persons in such relationships can qualify for survivors pensions in the first place; therefore, a widow or widower who enters such a relationship after qualifying for a pension should be considered to have another spouse, and be ineligible for further benefit as they would be if remarrying. The same approach is proposed for widowers in section 36, subject to the stipulations in sub-sections (2) and (3). This is consistent with section 53 which takes powers to issue regulations on disqualifying survivor pensioners during periods of co-habitation.

37(1) It is proposed that pensions to children should be paid until age 21 subject to the conditions in sub-section (2) with a disabled child who is adjudged to be incapable of self-support entitled to benefit for life.

38(1) It is proposed that pensions to dependant relatives should be payable for the following periods and at the following rates: subject to sub-section (3)

(a) to the parent or parents jointly, 60 per cent of the maximum amount for life;

(b) to the brother or sister, 20 per cent each of the maximum amount until that person attains age 21.

42 (2) A new item “*physical rehabilitation*” should be inserted in sub-section (2). The time limit of 5 years for provision, repair and replacement of artificial limbs is deleted.

42A This Part provides for medical care in Vanuatu only, but some severely injured workers may require specialist treatment not available in the country. The new section authorises such overseas treatment subject to a financial limit to be determined.

58 (2) The constitution of the Appeal Authority is prescribed as one person with appropriate legal qualifications and experience but the nature of social security appeals calls for the appointment of a legally qualified chairperson assisted by two assessors nominated by employers and workers organisations respectively.

72 The principle of risk-rating contributions is retained as appropriate and consistent with the objectives of the Bill. This section is revised to delete the references to the minimum and maximum rates of contributions and to state that regulations shall prescribe a system of industry classes that set rates according to the risk levels of each sector.

73 This section is revised to prescribe the system of experience rating under which employers will be assessed at intervals to determine whether the contribution rates should be maintained, increased or reduced.

78A The scheme should be designed and an actuarial valuation carried out in order to establish a sound financial system. Subsequently, it is most advisable to undertake regular actuarial valuations in order to monitor performance and ensure the financial stability of the scheme. It is proposed that the first such valuation should be carried out after 3 years (in accordance with section 96) and subsequently at 5 yearly intervals unless the Board requires earlier reviews of performance.

16.4.4 Further stages of action

(i) *Review of the revised Bill*

In the next stages of developing an appropriate scheme the draft Bill with the proposed changes may be submitted to careful scrutiny and review by Government and various stakeholders. The review should encompass the concepts and principles underlying coverage, the system of governance, the contributions and benefit systems, including the proposed changes in the system of permanent disablement and survivor pensions, and of administration with the aim of finalising the final design of the scheme for the purpose of an actuarial valuation.

A number of features and issues may warrant special consideration in the process of finalising the design and establishing the costs of optional features, as explained below.

(ii) *Contribution system.*

The principle of risk-rated contributions is retained in the draft Bill as more equitable, acceptable and effective in strengthening accident prevention compared with adopting uniform rates for employers to pay, but it should be recognised that developing and administering this system is technically more demanding than uniform contribution rates which are generally in use in developing countries in this branch of social insurance. The system of risk-rating contributions is based on industry codes or risk groups each of which is allocated a contribution rate determined by past experience of claims in respect of workplace accidents and diseases. Enterprises in each group are liable to pay the same rate. Typically, low-risk groups such as office administration would be rated as 0.15 or 0.20 percent of payroll whilst at the other end of the spectrum parts of the construction and logging sectors could be rated at close to or over 10 per cent. Where commuting accidents are included the rate is 0.1 per cent for all categories.

The levying of these differential rates ensures the equitable sharing of costs to the extent that the rates reflect the future actual operational experience which however, may be different. The enterprises in each group can make individual and concerted efforts to improve safety standards and to qualify for a reduced

group rate in future. This is in addition to the normal aim of enterprises of minimising accidents for productivity reasons. Experience rating is applied to each enterprise at intervals of 3 years by assessing the claims performance over the period and determining according to prescribed rules whether to reduce, maintain or increase the contribution rate for the next 3 year period. This system, which entails maintaining detailed records of each enterprise, is assumed to provide incentives for improving safety and health standards at enterprise levels.

Uniform rates are typically set at from 0.75 to 1.25 per cent of payroll according to the calculations during actuarial valuations on the rate needed to raise sufficient resources for financing the scheme. The main argument for uniform rates is that in a comprehensive social insurance system for a range of contingencies such as old-age, invalidity, survivorship, work-injury, sickness, maternity and unemployment the various risk patterns amongst all sectors of the workforce should achieve a reasonable balance over time. However, this type of rate would arouse controversy as it would involve lower risk sectors paying more than at present under private insurance and higher risk sectors paying less, and also would be contrary to the objectives of the scheme to strengthen accident prevention. The issue therefore is the feasibility of designing and implementing a system of differential rates and whether some form of collaboration with the insurance industry can be achieved for this purpose. The existing rate structure for categories of employees may provide a starting point for these activities.

(iii) *Contributions ceiling*

Social insurance schemes may introduce a contributions ceiling for the purpose of limiting the contribution amounts payable in respect of higher earners and also the liability of the scheme for benefits in respect of such employees. If this was adopted and a ceiling established contributions would be collected up to that level and benefits would be paid accordingly on the insurable earnings. Any such ceiling should incorporate a mechanism for regular increases related to movements in earnings. Advice on this mechanism can be

obtained by identifying this as an option for inclusion in an actuarial valuation.

(iv) Commuting accidents.

The proposal is to extend the scope of protection to include more types of commuting accidents where personal transport is used, subject to use of the direct route. However, this type of claim usually presents difficulties due to relatively high numbers, and a significant proportion of disputes and its introduction is deferred for a minimum of 3 years after the initial implementation of the scheme. This extension of the scope of protection is likely to benefit both male and female employees who are less likely to claim for other types of workplace accidents due to the nature of their employment. Stakeholders may wish to consider whether the scheme should cover this type of accident and, if so, what is the most suitable approach to introducing this cover. A relevant point is that some employees are already provided with this type of cover under insurance policies taken out by their employers.

(v) Minimum benefit levels

Through the pooling of funds social insurance schemes can provide minimum benefit standards, such as specific amounts or a percentage of average earnings, to ensure adequate income protection of lower paid workers and their families since for a minority of lower paid workers a rate such as $66\frac{2}{3}$ per cent of average earnings for temporary incapacity payable for a lengthy period may lead to hardship. The need for such a mechanism can be determined by reference to the range of earnings to be insured. Since it is usually the case that female workers predominate in the ranks of the lower paid this issue has gender dimensions.

(vi) Trust Accounts

Section 37 (4) of the Bill states that the Board has powers to take action to ensure that child pensions are applied for the maintenance, education, advancement or benefit of the children concerned. The issue to be resolved through discussions amongst stakeholders is whether a system of Trust Accounts should be prescribed for the management of child benefits. These operate by joint management of the benefits payable to children under age 18 by the Board and the respective legal guardians through

the setting up of bank accounts and procedures for the release of funds for educational and other purposes. This type of Trust Fund account is in force in countries such as Fiji and Samoa.

(vii) Common Law Liability

Section 90 debars any legal action by injured workers or any other persons for damages in respect of work-connected accidents, and the issue to be considered is whether or not to retain this provision.

(viii) Disability Assessment

In a number of similar schemes a system of medical boards is in use for assessing disablement in the interests of uniformity, and as a sound basis for the efficient functioning of the benefit and financial systems. The normal practice is to confer authority in the law for the social security institution to establish Medical Boards from time to time to examine claimants and determine the degree of loss of earnings capacity and whether the assessment is provisional or final. The Medical Boards are guided by a Schedule to the Act specifying the degrees of disablement for different types of injuries.

It is envisaged that the draft Bill will be considered by the government and submitted to the Labour Advisory Board and other stakeholders for a review encompassing the Bill as amended, the above issues and others that are brought up in the course of social dialogue. Following these stages the design of the scheme may be completed sufficiently for an actuarial valuation.

(ix) Implementation phase

This section provides some guidance on the various stages involved in completing the design of the scheme, finalising the legislation, establishing the Worker's Compensation Board, and completing a range of technical and other preparations for the launching of the scheme. It is assumed that the Department of Labour will have the main responsibility for management of this process until the new Board is appointed and can take over.

One the major decisions to be taken is on the feasibility of establishing the system of risk-rated contributions similar to that now in use by insurance companies that offer worker's

insurance cover. This will entail drawing-up a system of risk-rated contributions and drafting regulations on the implementation of this system and adjusting rates periodically on the basis of actual claims experience. Training of staff in the implementation of this contributions system or finding an alternative method of introducing it will be an essential step in the administrative preparations.

An actuarial valuation will determine the costs of the scheme and of any options included for costing, such as the use of minimum benefit rates, and will devise suitable financial systems for the scheme incorporating the risk and experience rating contribution system. This exercise would also provide advice on methods of calculating lump-sums for persons awarded permanent partial disablement benefit at less than 25 per cent and on options of paying benefits to persons who have emigrated from Vanuatu.

A worker's compensation scheme of this type requires two financial systems. The annual assessment or "pay-as-you-go" financial system is appropriate for the medical and short-term cash benefits. Under this system the resources raised year by year from contributions and other sources balance the expected costs year by year. In practice, a contingency reserve is needed against unforeseen changes in expenditures or falls in income. This may be of the order of 6 months average benefit expenditure for temporary incapacity benefits and medical care.

For long-term benefits, the principle is full funding of liabilities in the year in which these are incurred through the system of constituent capitals. This ensures that these costs are borne by the currently contributing employers and are not passed on to future contributors. Consequently, this system takes into account the future costs of pensions and lump-sum payments expected according to projections to be awarded each year. The Workers' Compensation Fund should be established with contingency and technical reserves to receive all income from the contributions and investments, and to finance expenditures on benefits and administration.

In view of the variable nature of the contributions for the scheme, collection by an agent such as VNPF will be less straightforward than if uniform rates were in use. Consequently, options such as collection by another agent or

direct collection by the Board may be considered in order to determine which is the most efficient and economical method. However, there would be significant advantages in utilising the VNPF's contributions collection and enforcement systems, particularly in view of concerns about non-compliance with VNPF and with legal requirements to take out insurance under the existing workers compensation law, and this may be considered to be the first option for consideration if arrangements satisfactory to the Board can be made. In any case, the structure of contributions and surcharges should be identical to that of VNPF for the benefit of employers and to facilitate administration in this sector.

The provision of medical care should be organised through a system of accredited providers and a system of payments for various types of case, as prescribed in section 42 of the Bill.

It should be noted that a start-up capital will be needed to finance the administrative preparations until the collection of contributions begins and it is envisaged that 'government is a possible source through the medium of the budget. Important steps include the finalisation of the Bill, design of the contributions system, an actuarial valuation and a review of the Bill by stakeholders. The aim is to submit the Bill to the Council of Ministers and to Parliament with a view to completing all preparations for the launching of the scheme without any significant delay.

The Minister will bring the scheme into force through a notice in the Gazette and the selection of the Appointed Day should be made sufficiently in advance, after consultation with the State Law Office and insurance companies, to allow sufficient time for the transition to the new system of social insurance. Section 4 provides for the scheme to come into effect for accidents causing personal injuries that occur and in respect of occupational diseases that have developed on or after the appointed day.

16.5 The national workshop on worker's compensation reform in Vanuatu June 2005

16.5.1 Background Information

(i) Relevant Developments

Since the previous mission (15-20 February, 2005) there were two relevant developments:

- The Labour Advisory Board was set-up, as envisaged in the last ILO report's Implementation Action Plan, and was planning to meet on 28 June 2005 to consider the proposals for amendment of the WC Bill and the various issues identified in the ILO report; and
- The National Action Plan for Decent Work (NAPDW) was adopted and the relevant sections are outlined next.

(ii) National Action Plan for Decent Work (NAPDW)

The NAPDW has a wide scope and for the purposes of this report information is extracted only on social protection and employment respectively.

In the case of social protection the specific items that are prioritised are as follows:

- Finalisation of the Worker's Compensation Bill in 2005;
- Revising and finalising the Occupational Safety and Health Bill in 2006;
- Investigating the possibility of introducing a social health insurance scheme in 2006.

A review of all labour laws is also envisaged.

The NAPDW addresses employment issues and refers to the development of a gender balanced employment policy, creation of employment in the formal sector and rural areas, enhancing vocational training capacities and devising a labour market information system.

In the course of the mission information was obtained on the system of vocational training in the country. The Vanuatu National Training Council (VNTC) was set-up in October 1999 under the Vanuatu National Training Council Act No.13 of 1999. The NTC has numerous statutory functions but for the purposes of this report the most relevant are its responsibilities :

- to promote and coordinate vocational education and training at all levels within the community and to provide advice to the Minister on the costs and financing of vocational education and training;
- to accredit courses and to authorise course providers (both public and private sector)
- to encourage the adoption of national skill standards with advice from appropriate industry based groups; and
- to support research to determine the labour market and training needs of Vanuatu.

No statistics on training were available at the date of the visit to VNTC.

16.5.2 Report on the ILO national workshop on worker's compensation reform

(i) Participation and opening session

The workshop was held in Port Vila on 16 June 2005 with 22 participants representing the Vanuatu Chamber of Commerce & Industries, the National Workers Union, Department of Labour, Vanuatu National Provident Fund, Ministry of Health, Vanuatu National Council of Women, Department of Economic & Sector Planning and certain other organisations.

(ii) Agenda and Proceedings

The workshop agenda was as follows:

- 1 Overview of Worker's Compensation Insurance
2. Strengthening of Worker's Compensation Protection in Vanuatu

(iii) Overview of worker's compensation insurance

Under item 1, a presentation was made on the Study into Worker's Compensation Insurance that was completed under the project and distributed to Vanuatu and other participating countries. This presentation covered

1. Description of WC Insurance:
 - a) Main concepts and principles, and
 - b) Structure of Schemes.
2. Reform and Development of WC Schemes.
3. Issues for Discussion.

Considering the fact that the worker's compensation legislation is little known and there is evidence of significant under-claiming, this session fulfilled a need for comprehensive information on the nature and structure of schemes world-wide, and the main trends and issues. Furthermore, the information on world-wide trends on conversion into social insurance schemes had an added dimension for the participants for whom the concepts of risk-pooling are still new due to the dominance of the defined contribution approach under the Vanuatu National Provident Fund (VNPF). It was made clear that the adoption of social insurance principles was for all types of social security development and not only for the upgrading of worker's compensation schemes. The example of Samoa was of interest as the only example of a social insurance scheme for this contingency amongst the countries participating in the ILO project.

In view of the general need for more information, the presentation covered the development of "no-fault" employer liability (EL) schemes, their advantages and disadvantages, and the basis for the general practice of converting into social insurance schemes in order to attain higher standards of health and income protection. The key principle of risk-pooling was explained with some examples in view of the lack of experience of this key technique in Vanuatu including the ability of the fund to pay pensions throughout the contingency and to maintain their value by regular increases. Examples were also provided of the rates of permanent total disablement pensions (PTD) and of survivor pensions.

Another theme was the trends for increasing support for accident prevention and OSH in order to reduce claims expenditures; this was of special interest in view of the concerns in Vanuatu about the lack of OSH legislation, which is still to complete the process of approval by Parliament.

In the section on financing the pros and cons of using uniform contribution rates or risk-rating were brought out, as this is a key issue in reforming the old-style employer liability and worker's compensation schemes. Examples of the New Zealand Accident Compensation Scheme's rates were given to illustrate the principles of the risk-rating system.

16.5.3 Strengthening of workmen's compensation protection in Vanuatu

In the second session the presentation consisted of the following topics:

1. Review of the Existing Scheme
2. Development of a New Scheme for Vanuatu
3. Issues for Discussion

(i) *Item 1 - Review of the Existing Scheme*

Under item 1 it was explained that a short Worker's Compensation Act was drafted in 1987 but not introduced pending a decision on its suitability. ILO was asked to draft a comprehensive WC Bill in 1999 and submitted it to Vanuatu in February 2000. The 1987 legislation was introduced in 2004 as a stop-gap measure and to establish a legal basis for compensation when the Department of Labour began to re-organise and review existing procedures.

All employers were made liable for compensation in respect of accidents causing disablement or death and are required to take out private insurance to cover their liability. For total disablement or death the benefit is 3 years wages up to a limit of 2 million vatu. The Act does not stipulate the payment of wages during temporary disablement or the provision of medical care. Another concern is the comprehensive lack of management information available to the Ministry to meet its responsibilities for effective monitoring and oversight and enforcement of workplace safety procedures.

The main deficiencies of the scheme include:

- no provision for medical care and rehabilitation;
- payment of lump-sums for long-term contingencies instead of pensions as prescribed by relevant ILO standards;
- no framework for governance through the groups most concerned - the employers, workers and government; and
- the system makes no provision for supporting accident prevention.

(ii) **Item 2 - Main Provisions of the Worker's Compensation Bill 1999**

- The Bill establishes a social insurance scheme under a tripartite Worker's Compensation Board. Risks are to be pooled in a Workers Compensation Fund from which benefit payments and administrative expenses are paid. The basic principle is no-fault and legal actions by injured workers against their employers for damages are ruled out. The scheme's objectives are specified as:
 - To provide compensation;
 - To promote workplace safety.
- Coverage includes:
 - Private sector, government departments, statutory bodies, public and local authorities;
 - Employees under a contract of service, police, prison service and members of cooperatives but excludes:
 - Outworkers and domestic workers.

1. Scope of protection

The basis of compensation is that the insured person has suffered a personal injury arising out of and in the course of his or her employment. This key provision is supplemented by others that strengthen the rights of claimants in various situations where some doubt could arise.

2. Financing

The envisaged contribution system is for employers:

- to pay according to risk within a range of from 1 to 4 per cent of payroll, and
- at intervals to receive no-claim bonuses or penalties after assessments of their claim record.

3. Benefits

- Medical care is through a system of reimbursement of expenses for ambulatory and in-patient care, drugs and artificial limbs in accordance with scales specifying entitlement.
- The basic standard for disability benefits is $66\frac{2}{3}$ per cent of average earnings and examples were given to illustrate the methods of calculating rates for temporary, permanent and survivorship benefits

The ILO Report identifies a series of changes that are recommended to:

- extend coverage to domestic workers;
- include commuting accidents;
- improve benefit standards by:
 - removing the 5 year limit on pensions which should be payable throughout the period of dependency as a disabled person, a surviving spouse (i.e. until remarriage or cohabitation), a child under age 21 (with a disabled child unable to work included indefinitely);
 - Prescribing secondary relative pensions for parents at the rate of 60 per cent of the maximum amount for life and for 20 per cent for siblings up to age 21;
 - introduction of a funeral grant ;
 - providing a right to overseas medical treatment, if required.
- strengthen governance through improved provisions for the Worker's Compensation Board and the Appeals Authority; and
- provide the basis for a system of risk and experience-rated contributions payable by employers.

The ILO report also identified a number of features that should be considered by stakeholders when the scheme is reviewed, as follows:

- introduction of a contributions ceiling - social insurance schemes may introduce a contributions ceiling for the purpose of limiting the contribution amounts payable in respect of higher earners and also the liability of the scheme for benefits in respect of such employees;
- commuting accidents - the inclusion of commuting accidents is desirable at a stage when the more complicated cases can be handled by the administration. A 2 year period is proposed because the major challenge faced by the scheme will be to establish the risk-rated contribution system and the collection of data on claims expenditures by each enterprise;
- minimum benefit levels - through the pooling of funds social insurance schemes can provide minimum benefit standards, such as specific amounts or a percentage of average earnings, to ensure adequate income protection of lower paid workers and their families since for a minority of lower paid workers a rate such as $66\frac{2}{3}$ per cent of average earnings for temporary incapacity payable for a lengthy period may

lead to hardship. The need for such a mechanism can be determined by reference to the range of earnings to be insured. Since it is usually the case that female workers predominate in the ranks of the lower paid this issue has gender dimensions;

- Trust accounts - the Worker's Compensation Bill refers to the duty of the Board to ensure that child pensions, which are payable to the surviving spouse or guardians, are utilised for the maintenance, education advancement and benefit of the children concerned. In some countries such as Fiji and Samoa the scheme sets up Trust Accounts into which child benefits are paid and from which withdrawals are strictly controlled through a system of joint bank accounts after checks that the sums involved are for the payment of school fees, purchase of school books and uniforms or are otherwise required for the welfare of the child. The question is whether such a system is appropriate for Vanuatu;
- common law liability - Section 90 of the Bill debars workers or their families from taking legal actions for damages against their employers for the consequences of work-related accidents. This is seen as part of the "no-fault system" but stakeholders may wish to consider whether this is appropriate; and
- disability assessment - in social insurance schemes disability assessment is the responsibility of independent medical boards which are administered and financed by the fund and this approach is proposed for Vanuatu.

Item 3 Issues for Discussion

Following the presentation the participants discussed a number of issues.

A Do you agree with the system of survivor benefits?

Survivor benefits in any country should be carefully designed in accordance with the social and cultural traditions and current thinking on family structures. This is the reason for the question posed to the workshop as the system set out in the draft Bill was the subject of limited consultations with stakeholders in 1999 but further such reviews were called for on this

occasion as part of the process of finalizing the legislation.

The topic drew many comments that reflected a range of views on some of the main questions that arise in devising suitable survivor benefits.

1 For example, the conditions for a surviving spouse pensions include:

- Residing with the deceased at the date of death or was wholly or mainly maintained by him/her;
- Not ordinarily gainfully employed for more than 30 hours per week;
- The spouse rate is 60% of the maximum amount and is payable for life or until re-marriage or co-habitation;
- De facto relationships are included in the definition of spouse and are to be considered by the Board; and
- The system of primary and secondary dependants.

Several participants expressed views on the provisions concerning de facto relationships, some of which queried the feasibility of establishing this state of affairs for the purposes of the Act. A consensus emerged on the inclusion of common law marriages, which can be verified in the community, instead of de facto relationships.

The 30 hour work rule was debated and was criticized as possibly adding to the difficulties of lower income persons whose pensions were low and needed supplementation through employment which could be debarred under this rule. This would constitute an earnings trap. After a thorough discussion it was agreed that there should be no restriction on earning whilst in receipt of surviving spouse pensions. The principle of placing primary relatives first was accepted after some discussion as necessary to ensure that such pensions are adequate,

B Section 90 rules out actions by workers or others for damages under common law when insured workers suffer injuries or are killed and issues of negligence arise. This is part of the "no-fault" system as benefits are payable whether or not workers are negligent. Do you agree with this approach?

This was subject to a series of comments but the conclusion was that this provision should be referred to the Attorney-General's Department in order to determine whether it contravened basic

laws of the country or could be accepted as a valid provision in the Worker's Compensation Bill.

C *Is there any way of including out-workers in the WC scheme?*

No ready solution could be found as the main problem is that the status of out-workers is not identical to that of employees who work under a contract of service.

D *Should persons entitled to pensions have the right to request conversion of all or part into a lump-sum amount?*

This was not considered to be a suitable provision as it could undermine the principle of pensions as a guaranteed method of maintaining income support throughout the contingency.

E *Is there a case for paying minimum benefit amounts because low-earners could find 66% inadequate over long periods? On what basis could such standards be established?*

On the issue of establishing adequate pension standards the meeting agreed that the idea of minimum benefit levels could be included as an option in the proposed actuarial valuation

Other points that arose from discussions on the draft Bill were as follows:

1 The revised Bill contains improved provisions on the establishment of the Worker's Compensation Board which effectively empower the Minister only to appoint persons nominated or elected to the positions reserved for representatives of employers' organisations and trade unions respectively. The only changes proposed were the following:

- Section 13(1) (b) to state "Two persons representing employees to be elected by a registered trade union or unions";
- Section 13 (1) (c) Two persons representing the government to be nominated by the Minister after consultation with the Department of Labour and the Ministry of Health respectively (this names Department of Labour to ensure that it is

represented on the new Board since the Ministry of Internal Affairs covers wide range of other functions);

- The proviso to section 13 was amended to conform to current practice by including youth in the phrase provided that, in making his or her appointments the Minister shall ensure that the Board includes representatives of men, women and youth.

2 Investment of reserves should be for the benefit of the new fund and not for any other reason.

3 Concerns were expressed about continued delays with the Occupational Safety & Health Bill and it was felt that the Bill should be introduced at the same time as the new Worker's Compensation Bill.

4 The other main point stressed by trade union representatives was that entitlements of injured workers were being denied in some sections of employment and reform of the scheme in Vanuatu is long overdue. The view of the employers representative was that more time was needed for consultations and to identify ways in which smaller enterprises can be included in the scheme.

16.5.4 Revision of the draft worker's compensation bill, 2005

As a result of the discussions at the ILO National Workshop on Worker's Compensation Reform and Unemployment Protection held on 16 June 2005, the following changes were made in the text of the draft Worker's Compensation Bill, 2005.

1. The meeting discussed the pros and cons of allowing de facto relationships already incorporated in the original draft Bill to qualify persons as spouses, and decided that the definition of spouse in section 2 should be revised as follows:

"spouse" means either of a man and woman who are married to each other by civil ceremony, religious service or custom.

2. The composition and appointment of the Worker's Compensation Board attracted a lot of comments because of the importance of establishing a representative Board empowered to implement the Act as envisaged. As the revised text already ensures that employers and employees can submit nominees for endorsement by the Minister the changes were limited to the following:

(a) section 13 (1) (b) revise to state *"Two persons representing employees to be elected by a registered trade union or unions"* (inserted at the request of the National Union of Labour)

(b) section 13 (1) (c) to state *"Two persons representing the government to be nominated by the Minister after consultation with Department of Labour and the Ministry of Health respectively"* (the specific reference to the Department of Labour was thought to be necessary because the Ministry of Internal Affairs has several distinct functions and the Department of Labour should be represented on the Board).

Finally, the proviso to section 13 was amended to include "youth" as some participants stated that this was now a requirement for establishing statutory bodies as follows:

"Provided that, in making his or her appointments the Minister shall ensure that the Board includes representatives of men, women and youth."

3. On survivorship benefits the workshop discussed the proposed structure and endorsed it subject to the removal of the disqualification in sections 35(3) and 36 (3) if the surviving spouse is ordinarily gainfully employed for more than 30 hours per week. This means that surviving spouses can earn additional amounts through full-time work to supplement their pensions considering the fact that the maximum amount for all survivor pensions is two-thirds of insurable earnings.

The restriction still applies to child pensions (section 37 (2)) since this would be a normal development of an older child starting work ending the entitlement as a former dependant of the deceased.

It may be noted that the provision in sections 35 (1) and 36 (1) on entitlement of surviving spouse pensions for life subject not only to remarriage

but also to cohabitation still apply despite the deletion of de facto marriages as a basis for entitlement. This is advisable because of the problems that arise when beneficiaries have established a relationship that is clearly akin to remarriage but remain entitled to pensions from the Worker's Compensation Fund which is seen as encouraging persons not to marry legally in order to retain their pensions. In such cases the Board will have the power to suspend payment of the spouse pensions. Furthermore, cohabitation is accepted in ILO Conventions as a reason for suspension of benefit (Article 69 of the Social Security (Minimum Standards) Convention No.102 of 1952 and Article 22 of the Employment Injury Benefits Convention, No 121 of 1964).

4. Common Law liability. Section 90 of the original draft Bill excludes the right of injured workers or their families from taking action under common law for negligence on the part of employers. In general the concept of "no-fault" schemes that do not consider whether or not some person or persons were negligent so that compensation under the legislation can be provided to the injured worker or his/her family includes the absence of a right to sue employers for damages on the basis of negligence. The issue of whether this is appropriate in Vanuatu was discussed without any final conclusions as it was felt that this should be determined by the legal authorities of the country.

These amendments were discussed with members of the Labour Advisory Board (LAB) on 17 June 2005 including some persons who did not attend the workshop. This was in preparation for the formal meeting of the LAB on 28 June to discuss the proposed new worker's compensation scheme.

16.5.5 Concluding remarks

(i) Worker's Compensation

The timing of the national workshop has ensured that stakeholders had the opportunity to study and comment on the proposed reforms of the worker's compensation system prior to the meeting of the Labour Advisory Board on this important topic. The Bill has again been revised and constitutes an updated version of the comprehensive legislation for the new scheme which should facilitate the process of finalising the design of the scheme. The prospects for the

proposals are enhanced by the fact that the National Action Plan for Decent Work recognises the priority for this reform to be completed in 2005. It is hoped therefore that the momentum gained by the support for reform of the national workshop can be maintained and ensure that the decent work deficits in this field can be rectified in accordance with the Implementation Action Plan that was proposed in the preceding ILO report “Strengthening of Workmen’s Compensation Insurance in Vanuatu”

16.6 Conclusions and recommendations

The Government of Vanuatu found it advisable to implement the Workmen’s Compensation Act 1987 only in 2004 which has served as a stopgap measure whilst advice was obtained on the introduction of a more comprehensive and effective scheme prescribed in the draft Worker’s Compensation Bill 1999. There is full justification for governments’ plans to change the principles on which the scheme is established, in view of the manifest deficiencies of the 1987 legislation and the fact that the present system functions with very limited information available to the Department of Labour for monitoring and evaluation purposes, and to support OSH activities. This includes the regulatory framework which is still in the process of development. In this situation, it is all the more important that the Labour Department should maintain detailed records of accidents and claims, including as a minimum names of employers, industrial sectors, age of workers, sex, type of injury, earnings, duration of benefit, outcome of the claim, costs of medical and cash benefits and duration of the settlement process.

Government has clearly recognised the importance of establishing a comprehensive worker’s compensation scheme with wide coverage, more effective benefits and support for the prevention of work-related accidents and occupational diseases. The draft Bill, which was

produced in 1999 after consultations with some stakeholders, has been reviewed and a number of possible changes have been identified. These are intended to better meet the aims of government and stakeholders in regard to the coverage of the scheme, scope of protection, strengthening of governance, the standards of the medical and income protection for injured workers and their families and the provision of incentives for reductions in occupational risks. As a number of stages have to be completed before the Bill becomes law, this report contains:

- an outline of the scheme prescribed in the draft Bill;
- a summary of and justification for the proposed changes; and
- the amended text of the Bill.

It is recommended that these documents should be utilised for reviews of the proposed scheme, the proposed amendments and the various issues raised in this report by various stakeholders and the Labour Advisory Board with a view to achieving a consensus on resolving all outstanding issues and finalising the scheme. An implementation action plan has been drawn up to assist the Labour Department and the Worker’s Compensation Board respectively firstly in the planning of the consultations and the steps required to complete the design of the scheme and finalisation of the Bill for eventual presentation to Parliament and in its implementation. It is assumed that government will make available a grant or loan to finance the necessary preparations for the launching of the scheme.

The proposed scheme constitutes a key element in strategies for the progressive strengthening of social protection in conformity with relevant ILO standards and rectifying decent work deficits and, to the extent possible, ILO would be ready to assist the Government of Vanuatu in realising its aims in this field.

Chapter 17 Maternity Protection: Principles

17.1 Introduction

This chapter looks at issues related to the possible extension of maternity protection in Vanuatu.

The first part examines the nature of international maternity protection policies, with a particular focus on the nature and coverage of paid maternity leave.

The second part looks at the situations in Vanuatu, and examines the implication of extending the coverage of maternity protection. It concludes that the currently feasible options relate mainly to women in formal employment, essentially the groups now covered by provident fund membership. However, options for women in the informal economy are also discussed.

The third part looks at the possible costs of extending paid maternity leave in Vanuatu, using a model developed for the purpose. The indicative conclusions are that paid maternity leave in line with ILO Conventions for those in formal employment could be funded by relatively small levies on the payrolls currently covered by provident fund membership. However, the figures differ somewhat for each of the countries.

Section 17.14 sets out the costing methodology using a calculation model to estimate indicative costs of paid maternity leave and section 17.15 sets out a standard model of paid maternity leave for possible use in each of the five countries.

17.2 The nature of maternity protection programmes

All developed countries and most developing countries have a range of maternity protection programmes designed to cater for the needs of women workers who give birth to children. These programmes have been promoted by a series of ILO Conventions focussing on the rights of women workers, and the measures needed to promote gender equality in employment.

Key components of maternity protection programmes include the following:

- Free or subsidised health and maternity care, which may include pre-natal medical care, delivery, and post-natal medical care;
- Paid maternity leave for women who have to give up paid employment for a period of time because of pregnancy and childbirth;
- maternity grants and/or nursing allowances to cover set up expenses and some ongoing expenses associated with having a baby; and
- Employment protection for the woman concerned.

In addition some developed countries (e.g. Sweden) may also provide for a period of paid parental leave for fathers. However, there is no ILO standard on this issue.

The most recent ILO analysis indicates that the vast majority of countries now provide for cash benefits during maternity leave for at least parts of their workforces. A further rather small group of countries which do not yet provide paid maternity leave may provide for a period of statutory unpaid maternity leave for women workers, with job preservation for those who take this leave. This is the situation in Australia, and was the situation in New Zealand up till the year 2002, though New Zealand now has paid maternity leave.

Some countries also extend maternity leave to cases of adoption of children.

The recent period has seen some increases in maternity protection, especially in provisions for maternity and parental leave in a number of developed countries. Currently the most extensive maternity protection programme coverage is in Europe and Central Asia. However, in the Pacific region developments in maternity protection have tended to lag behind changes elsewhere.

Data quoted in this paper is the latest available from *Social Security Programs Throughout the World*, and the 2005 ILO publication *Maternity at Work* or from later material on web sites such as the Colombia University Clearinghouse on International Developments in Child Youth and Family Policies, or from national social security

websites. In some cases the national programme details will have changed since the material cited in this paper was made available.

17.3 Purpose of the programmes

Maternity protection programmes have a range of objectives:

- To ensure that both mother and baby receive adequate medical care;
- To cover at least part of the additional medical and other costs associated with pregnancy and childbirth;
- To provide for a period of leave for a mother to move through the later stages of pregnancy and to recover from childbirth;
- To permit mothers (and sometimes fathers) to withdraw from paid work for a period to look after the baby;
- To provide income replacement for a period of withdrawal from the paid workforce;
- To protect the employment of the women workers concerned, and ensure that the same job or an equivalent job can be resumed on return from maternity leave; and
- To contribute towards greater gender equality for women workers.

In some developed countries with sub-replacement fertility rates there may also be an objective of boosting the birth rate, though this is not generally so in developing countries. However, in the case of France maternity leave is extended from 16 to 26 weeks for the third child.

17.4 ILO Conventions

Paid maternity leave and adequate medical care for mothers and children were early ILO priorities. Convention No 3 of 1919 laid down the principles, which included provision for 12 weeks paid maternity leave paid for out of public funds or a system of insurance for women working in public or private commercial or industrial organisations.

Convention 103 of 1952 also provided for 12 weeks of paid maternity leave, which was to include at least 6 weeks of post-natal cover. It also extended coverage to women in non-industrial and agricultural operations, including women wage earners working at home. The level of payment was to be no less than two-thirds of the woman's normal earnings. Medical

benefits were to include pre-natal, confinement and post natal care by a midwife or qualified medical practitioner, as well as hospitalisation if necessary.

The most recent convention is ILO 183, the Maternity Protection Convention of June 2000. This provides for 14 weeks of paid maternity leave for all employed women. Its recommendation 191 also encourages state parties to extend the period of paid leave to 18 weeks. The two thirds of earnings criteria is repeated, plus the requirement in Article 6 that cash benefits shall be of a level which ensures that the woman can maintain herself and her child in proper conditions of health and with a suitable standard of living.

ILO convention 183 Article 2 (1) extends maternity protection rights to all women workers, including those in atypical forms of dependent work. However, Article 2 (2) does allow ratifying members, after consulting with the representative organisations of employers and workers concerned, to exclude wholly or partly from the scope of the convention limited categories of workers when its application to them would raise social problems of a substantial nature. How coverage is to be applied in Pacific Island countries with large proportions of the labour force involved in informal and subsistence activities is one of the key policy issues needing to be addressed.

A consistent theme in ILO conventions is to advise against individual employer liability for maternity pay except in narrowly specified conditions, and for benefits to be normally funded from public funds or insurance premiums. Exceptions are admitted where there has been agreement between government, employers, and workers, or where individual employer liability was a pre-established component of national legislation.

To date only a minority of ILO members have fully ratified all of the conventions. For Convention No 3 there were 33 ratifications, for Convention No 103 there were 40 ratifications, and so far for Convention 183 as of February 2005 there have been 11 ratifications. However, while not fully complying with all of the Convention requirements, most member states have instituted some forms of maternity protection legislation, usually including paid maternity leave for at least some sections of the

population of working women. Sometimes the reasons for not ratifying the Convention are relatively minor technical differences in the programme content or coverage compared with the ILO Convention standard. For example, by the end of 2004 while only 11 of 142 countries analysed had ratified Convention 183, fully 44 per cent of them provided 14 or more weeks of maternity leave.

17.5 Organisation of maternity protection programmes

Characteristically both the medical expenses associated with childbirth and the income replacement costs of paid maternity leave are a relatively low percentage of total social protection costs in countries with these programmes. For example the New Zealand programme for paid maternity leave costs the equivalent of only just over 0.1 per cent of wage and salary payments. This is a particularly low figure, reflecting the low proportion of eligible births, and low wage replacement ratios for many women workers on paid maternity leave in New Zealand. However, most paid maternity leave programmes cost less than 0.5 per cent of salary and wage payrolls. Because of this, the costs of maternity protection are usually merged in with other larger social programmes for administrative convenience. Three patterns tend to predominate:

- In a number of countries both maternity health care and paid maternity leave are part of a wider social insurance scheme which also characteristically covers retirement pensions, sickness and invalidity benefits, and health care costs;
- In another group of countries both maternity medical costs and paid maternity leave are part of the health insurance system;
- In a third group of countries paid maternity leave is administered in conjunction with cash sickness benefits or cash social insurance, while maternity medical costs are covered by the separate public or national health system.

However, there are also a few countries with somewhat different patterns. In New Zealand for example paid maternity leave is funded from general taxation, and the scheme is administered by the Inland Revenue Department. In Canada there is a linkage to unemployment insurance A

few countries have individual employer liability schemes for paid maternity leave. This is the case for several Pacific Island countries.

A common pattern is for one organisation such as a social insurance or health insurance fund to be the delivery agent for assistance, with another arm of government such as a Ministry of Social Affairs, Labour, or Finance being responsible for oversight of the organisation

17.6 Coverage of the schemes.

The coverage of maternity protection programmes depends on the nature of the scheme in each country. Distinctions need to be made between the different components of programmes, particularly between maternity medical expenses and paid maternity leave

In a few developed countries **paid maternity leave** is available to all residents (e.g. Sweden), or virtually all. In Mongolia however coverage is limited to citizens. In the Netherlands the unemployed are included. More commonly paid maternity leave in practice applies largely to formal economy workers covered by the relevant social insurance or sickness insurance schemes, or in some cases statutory employer provision schemes. In some developed countries the self-employed may be covered, while in others they may only be included if they have voluntarily joined the relevant contributory insurance system.

In many developing countries there is no coverage for informal sector women workers, who may be the majority of women workers but are outside formal employment-linked systems. In some other countries where maternity provision is part of the social insurance system, only employees of enterprises with more than a specified number of workers or covered, or else coverage is restricted to certain industries or geographic areas.

- In the United States only 5 of the 50 states have paid maternity leave, and unpaid leave applies only to enterprises with 50 or more employees;
- Domestic workers are excluded from coverage in a number of countries, including Argentina, Greece, the Philippines and Venezuela;

- Members of the employer's family are excluded in some other countries, including Egypt, Korea and Uganda;
- Agricultural workers are excluded in Bolivia, Egypt, and Sudan;
- Casual or temporary workers are excluded in Kuwait and Panama;
- Members of the armed forces are excluded in Greece, Somalia, and South Africa;
- Managers and business executives are excluded in Paraguay, the Philippines and Singapore;
- Workers earning over a certain ceiling are excluded in the Dominican Republic, El Salvador, and Mauritius;
- Civil servants are excluded from the national scheme in a large number of countries, (e.g. Japan, the Philippines and Mexico) but usually covered by separate public sector schemes.;
- There may also be other legal limits on coverage. For example in Belize coverage of sickness and maternity benefits is restricted to the 14-64 age groups.

Coverage of **maternity medical costs** is usually wider than that of paid maternity leave. Maternity medical cover often extends to wives of insured male workers as well as insured women workers. In countries with national health systems, free or low cost maternity medical care may be available to the whole population. In countries without national health systems there may still be social assistance to provide free or low cost maternity medical care to low income mothers.

It should be noted that full implementation of ILO Convention 183 requires maternity protection coverage to extend to all women employees, with very narrowly prescribed exceptions.

17.7 Conditionality

All countries attach some conditions to at least part of the maternity protection scheme benefits. In countries where entitlements are tied to employment-linked contributory systems conditionality usually includes:

- A specified minimum period of scheme membership or qualifying employment. For example in Grenada a woman claiming benefits must have been in covered employment for 30 weeks, including 20 in the more recent period preceding claim

eligibility. In the Bahamas the requirements are 50 weeks paid up membership, including 26 paid in the year before the birth. In Peru the woman must have been covered at the time the child was conceived. However, in Russia the woman merely has to be registered, while in Sweden coverage is for all residents. The Netherlands includes unemployed as well as employed women in coverage;

- For paid maternity leave the requirement is usually that the claimant must stop paid employment for the period claimed. In cases where a voluntary earlier return to paid work occurs, the period of paid maternity leave is reduced accordingly;
- Some countries may limit the number of pregnancies covered. For example, in Singapore the coverage is limited to the first two children. Egypt allows maternity leave only twice during a period of employment. Sri Lanka cuts the leave from 12 to 6 weeks for a third or subsequent child.

There is also a type of *implicit conditionality* where levels of payment for maternity leave are linked to covered wages, since with these arrangements people with limited prior earnings would receive limited paid maternity leave. In the U.K a woman worker must have been earning 80 pounds a week in the relevant period to qualify for statutory maternity pay, or at least 30 pounds a week to qualify for the lower maternity allowance.

It should be noted that ILO Convention 183 requires that the conditions set to qualify for cash benefits should be such so that they can be satisfied by a large majority of the women to whom the Convention applies.

17.8 Periods of maternity leave

Most current maternity leave schemes provide for 12, 13 or 14 weeks paid leave, usually in the form of 6 weeks prior to delivery of the baby, and 6 to 8 weeks after this.

An increasing number of countries have moved up to the new ILO minimum standard of 14 weeks. However, a few countries provide for longer periods of leave. Austria, the Netherlands, and France provide 16 weeks, Russia and Estonia

140 days (20 weeks), the U.K. 26 weeks, Norway 52 weeks, and Sweden 390 days of parental leave, of which 30 days must be taken by the father. A number of countries also provide for additional leave for special cases where there are complications of pregnancy or of child or maternal health. In Barbados for example, an employee is entitled to an extra six weeks of leave for illness arising from the birth.

A few countries provide well under the periods set in ILO conventions. South Korea provides only 8 weeks of paid maternity leave, and Jamaica 8 weeks. Singapore normally provides only 8 weeks, though this can be extended in certain conditions.

A few countries have a tiered approach to maternity leave. An initial period may be paid, and then a second part unpaid. Greece provides paid maternity leave for 17 weeks, but thereafter unpaid leave for up to 3.5 months for each parent.

17.9 Who pays?

There are a number of different payment arrangements for funding maternity protection schemes, which usually reflect the funding arrangements applying to wider social protection schemes. In principle the costs may be borne by employers, the employees or other insured persons, or by the government.

- Individual employer liability schemes are not very common, but exist in Argentina, Bermuda, Botswana, Congo (Kinshasha), Mauritius, Saudi Arabia, Hong Kong, and Singapore. In the Pacific, individual employer liability schemes exist for public Sector employees in Fiji, Kiribati, Samoa, the Solomon Islands, and Vanuatu, and for private sector employees in the Solomon Islands and Vanuatu. The U.K. also has an initial employer liability scheme in the form of statutory maternity pay. However, the employer can then claim a rebate from a common fund;
- Collective employer liability schemes in the form of employer-funded social insurance are found in Sweden and Peru, where the employers pay all of the insurance premiums concerned;
- Shared contributions between employers and employees in the form of jointly funded social insurance are the most common

pattern in the great majority of countries, both developed and developing. The premium costs are rolled into the premiums covering wider social insurance or health and sickness insurance covering employees;

- Arrangements where employees or other insured persons pay all premium costs for maternity leave insurance cover are uncommon, but are found in Kenya, Poland, and Chile. In Switzerland the insured person must also pay all the premium costs unless their employment agreement specifies otherwise.;
- The government may share some of the costs with employers and employees. This pattern of partial government contributions or deficit funding is found in France, Germany, Italy, Netherlands, Brazil, and Belize;
- The Government may fund all costs out of taxation. Government tax funding is common for maternity medical costs in national health systems, but rare for paid maternity leave. In New Zealand however government funding also extends to paid maternity leave, which is funded from general taxation;
- The system may be a mixture of two or more of the approaches listed above.

In cases where employees pay part of the cost of the scheme, the employee contribution is normally funded by both male and female employees. As noted, the cost is usually included in the levies covering wider social protection issues.

The ILO advises against relying on individual employer liability schemes for paid maternity leave. These may work against the interests of women workers as employers may then be reluctant to hire women who may become pregnant, or who are pregnant, or may seek to find reasons to discharge them in order to avoid the costs of paying for the maternity leave. Also, compliance with individual employer liability schemes is often problematic, particularly in developing countries, and this is currently the case in the Pacific. Individual employer liability can also impose an excessive cost on small and struggling enterprises. Instead, the ILO promotes pooling of responsibility through the use of public funds or insurance premiums. Individual employer provision with all its limitations is

better than no provision. However, pooled funding is a much better basis.

17.10 Level of paid maternity leave benefits

There is a fairly wide degree of divergence in the level of paid maternity leave in terms of the amount of cash paid. In most cases this is linked to the covered wage, with the ILO minimum standard being two thirds. This is usually interpreted as the normal wage paid for a specified period of time (e.g. earnings in the previous 6 months or previous year), or the wage upon which contributions have been paid for a specified period. However, the ILO Convention does not specifically define the covered wage to which the minimum proportion applies.

- A number of countries, particularly in Europe provide for 100 per cent of the covered salary. Examples include Austria, France, Germany, Netherlands, Portugal Spain, and Russia. 100 per cent is also paid in Algeria, Argentina, Brazil, Mexico, and Peru, and Barbados. However, this is sometimes capped at a specified level, so that very high income earners do not receive full pay when they are on maternity leave. Caps on the amount paid operate in Belgium, Denmark, France, Luxembourg, the Netherlands, Slovakia, and Sweden;
- In some other countries only a proportion of normal wage or salary is paid. In the U.K. this is 90 per cent initially, in Italy and Norway is 80 percent and Hungary 70 per cent. Ireland is also 70 per cent, Finland 65 per cent, and Greece 50 per cent. In the Caribbean most ratios are in the range from 60 per cent as in Trinidad and Tobago to 70 per cent in Guyana. In the U.S. there is no national scheme, but some states have provisions. For those U.S. states with paid maternity leave the proportions rang from 53 to 75 per cent of normal wages. In Botswana paid maternity leave is set at only 25 per cent of wages;
- Some countries have tiered rates of payment. In Belgium the payment is set at 82 per cent of the covered wage for the first 30 days of leave, and thereafter at 75 per cent. In the U.K. maternity leave is paid at 90 per cent for 6 weeks, and thereafter for

12 weeks at the lower of a flat rate of 100 pounds per week, or 90 per cent of covered earnings. Saudi Arabia pays sickness and maternity benefits at 100 per cent of the wage for the first 30 days, and 75 per cent thereafter. Grenada pays at 100 per cent of wages for the first two months of leave, but 60 per cent for the last month;

- In Jamaica paid maternity leave is set at the minimum wage;
- In New Zealand payment is 100 per cent of normal wages up to a level equal to about half the average wage for full time women workers. Thereafter the payment is a flat rate.

17.11 Cost of paid maternity leave

As previously noted, paid maternity leave is usually one of the lower cost social protection systems in most countries with formal social protection systems in place. This can be measured by calculating what percentage of the wage and salary payroll is required to fund paid maternity leave. However, a number of factors influence the actual level of cost of paid maternity leave schemes. These include:

- *The average number of qualifying births per woman worker.* This is usually low in developed countries, partly because of low birth rates, but also because many women withdraw from paid employment for a period after the birth of their first child. Hence many second or subsequent births do not qualify for paid maternity leave. For example in New Zealand only around 30 per cent of births qualify the mothers for paid maternity leave, even though most women workers in New Zealand are employed in the formal economy. This pattern however varies by country. Countries with high provision of childcare facilities such as the Scandinavian countries are likely to see more mothers return to work between childbirths, and hence a higher percentage of qualifying births. It is also possible that a similar pattern could occur in Pacific Island countries because of extended family care of the children of working mothers.
- *The proportion of women in the paid workforce* (or in Pacific Island countries, in

the formal economy workforce). The costs of maternity leave are spread across both women and men workers, and hence the lower the proportion of women in the paid workforce, the lower the comparative costs.

- ***The ratio of the earnings of women qualifying for maternity leave to average earnings.*** In most countries women on average still earn less than men, and this effect may be reinforced if women taking maternity leave are younger and more junior in pay status than women workers as a whole. Whatever the other problems this disparity creates, it has the technical effect of lowering the cost of paid maternity leave where this is linked to employee pay levels.
- ***The ratio of maternity leave pay to normal pay for the woman concerned.*** In some countries this is 100 per cent, though the ILO standard minimum is only two thirds.
- ***The period of paid maternity leave.*** The longer the period, the higher the cost. however, the 14 weeks provided for in the most recent ILO conventions is under 0.7 per cent of the time spent working in a 40 year formal economy career.
- ***The average length of working life in paid employment for workers as a whole.*** The longer this is the lower the percentage levy needed to fund paid maternity leave.

It is probable that the average length of formal economy employment is lower in Pacific Island countries than in the developed countries because of movement between formal and informal employment. However, more statistical analysis will be needed to establish whether this significantly affects the costs of paid maternity leave, because young women also move between formal and informal economy employment. There would thus be an offset in the form of a reduction in the proportion of qualifying births

- ***Administrative costs also affect the level of overall costs of paid maternity leave.*** Since paid maternity leave is usually administered as an adjunct to larger social protection schemes, this tends to reduce the incremental administrative costs.

A model for estimating cost of Paid Maternity Leave is shown in section 17.15.

17.12 Maternity discrimination

One of the key objectives of the ILO Conventions is to seek to ensure that maternity does not constitute a source of discrimination in employment. This includes prohibiting pregnancy tests except in relation to work prohibited for pregnant or nursing women under national laws, or where there is a recognised or significant risk to the health of the woman and child.

Other protections include:

- Protection from discriminatory dismissal,
- Compensation in the case of dismissal,
- Guaranteed right to return to work to the same or an equivalent position, and
- Maintaining rights to employment-linked benefits while on maternity leave.

17.13 Issues for the five Pacific Island countries

17.13.1 Cost and coverage issues

Key issue for each of the five Pacific Island Countries are who should be covered by any extension of maternity protection, and how it should be administered. Each country has a structural situation where the majority of women are outside the formal employment sector. At the same time each country has an established provident fund covering formal economy employment, and existing government provided health services funded mainly out of taxation revenue. These factors have a significant impact on what is feasible within current planning horizons.

Maternity protection schemes are usually low cost in the sense that they represent a low proportion of covered wages for those employed in the formal economy. For example in developed countries paid maternity leave of say 14 weeks duration usually costs under 0.5 per cent of the aggregate wages of men and women workers in developed countries, even with full wages paid during the period of maternity leave. Maternity medical costs are also usually a low percentage of total health treatment costs in most countries. For this reason maternity protection programmes are usually aggregated in with larger

social protection programmes such as sickness insurance or broader social insurance schemes.

However, while international experience is that maternity protection schemes are relatively low cost compared to the larger aggregates such as retirement pensions or health insurance, there are some specific issues affecting developing countries which need to be kept in mind in scheme design. Each of these considerations is relevant to the five Pacific Island Countries covered in this study.

- In many developing countries the majority of women workers are outside the formal economy, and hence have no existing social protection programmes to which maternity protection schemes could be added. This is the situation in each of the five countries, with the significant exception that there are existing national health services which include maternity medical services in operation in all five, and in the case of Fiji, a social welfare programme in the form of the family assistance scheme;
- Many informal economy women workers as well as those engaged in family duties are low income, and would have difficulty in paying for insurance based maternity medical care or for a voluntary contributory income protection programme. This is also generally true in each of the five countries, though there are also significant variations in the degree to which women workers in the informal economy are regular cash earners;
- In the Pacific Island countries the percent of the formal economy payroll needed to pay for maternity protection costs for workers in the formal economy may be somewhat higher than in most other countries. This is because of the combined effect of much larger family sizes, and shorter average periods in formal employment because of movements between formal and informal employment, and worker emigration. However, even after allowing for these factors, the required contribution rate is still likely to be comparatively low compared with other elements of social protection. The exact cost will depend on the design parameters of the scheme;
- Maternity linked medical costs may be a somewhat higher percentage of all medical

costs in the Pacific than in most other countries. Factors which could produce this outcome include high birth rates, and the limited development of specialist medical services in most Pacific Island countries. The latter factor means that basic health service including maternity costs are a larger proportion of a smaller aggregate;

17.13.2 Who would administer paid maternity Leave?

For each of the 5 Pacific Island countries in this study there are potential institutional *carriers* for maternity protection schemes, at least for formal economy workers. Each has a provident fund. Samoa has an Accident Compensation Corporation and is planning to set up health insurance. Fiji has a family assistance scheme.

It should be noted that if maternity protection schemes are administered by provident funds, the contributions to fund them are different in nature to those currently going into individual provident fund accounts. The contributions to cover maternity protection are pooled in common funds, and constitute social insurance rather than defined contribution individual accounts.

Maternity linked medical costs are currently covered mainly by the government funded health services in all of the five Pacific Island countries included in the study. A key policy issue is whether this should continue to be the case, or whether employment-linked health insurance should be used to raise standards of maternity care for women workers.

17.13.3 Existing paid maternity leave

All five countries in the study already have some forms of paid maternity leave for some women workers, though on an employer liability basis.

- Vanuatu employment law and government regulations provide for 12 weeks maternity leave on half pay (full pay for Government employees). However, compliance amongst smaller employers is problematic;
- Samoa has 2 months paid maternity leave in the public sector. Some private sector employers also provide leave;
- The Solomon Islands requires 12 weeks paid maternity leave at 25 per cent of wage

or salary. In the Government sector the payment rate is rate is 100 per cent of wages. Again compliance amongst smaller employers is a problem;

- In Kiribati public sector employees receive paid maternity leave for up to 12 weeks;
- Fiji provides public sector employees with paid maternity leave at 100 per cent of salary for 12 weeks, including 6 weeks after the birth. Payment at the 100 per cent rate is limited to the first three children. For subsequent births a lower flat rate allowance FJD 5.00 per day applies. A few private sector employers also provide maternity leave.
- Fiji has included in its new Employment Relations Bill 2005 provision for employers to provide 12 weeks of paid maternity leave at full pay – i.e. the rate the woman would have received had she been at work. Eligibility is based on employment for not less than 150 days, with Labour Department officials determining the apportionment between employers if the woman had more than one employer in the relevant period.

17.13.4 Problems with existing maternity protection coverage

In each of the five countries with paid maternity leave, only the arrangements for public sector employees are relatively satisfactory in terms of ILO Convention 103, though not the more recent Convention 183.

- For formal economy workers in the private sector, only two countries (Vanuatu and the Solomon Islands) currently have mandatory schemes under employment law. These provide for low rate maternity leave wages. An even more fundamental weakness is that they are individual employer liability schemes, and provide only haphazard cover in the case of employees in smaller enterprises. The proposed Fijian scheme for private sector employees, though providing for full rates of pay, is also an employer liability scheme.
In all five countries the majority of women workers who are engaged in the informal

economy have no forms of income replacement if they have to give up work because of pregnancy.

- Maternity linked medical care is also an issue. Each of the countries has a national health type system, though the quality of the care coverage is variable, particularly geographically, as remote areas have limited health facilities.

17.13.5 Maternal and child health

In each of the five countries the levels of infant mortality indicate that health aspects of maternity are still problematic. The figures quoted here are the latest estimates taken from the WHO Website.

Table 17.1 Maternal and child health

Country	Infant Mortality Deaths per Thousand Births	Maternal Mortality Deaths per 100,000 births
Fiji	17.76	35.29
Kiribati	43.00	103.00
Samoa	19.30	19.60
Solomon Islands	66.00	295.00
Vanuatu	27.00	96.30

Source: WHO Website November 2005

None of the five countries approaches developed country levels in terms of infant survival rates. Even in Fiji and Samoa infant mortality is three times the Australian or New Zealand level, while in the Solomon Islands it is ten times higher. Maternal mortality is particularly high in the Solomon Islands, Kiribati and Vanuatu.

Only part of this problem can be addressed by maternal and post natal medical care for mother and infant. Other issues include the existence of safe water supply, and adequate sewerage and waste disposal systems. These are public health measures rather than medical treatment issues.

However, part of the problem can be addressed by better medical services. A key policy choice is whether to use *across the board* improved services for the population as a whole, or to let the formal economy lead the way with additional medical services funded by contributory insurance.

17.13.6 Institutional Options – formal economy workers

There are a number of possible options for extending maternity protection for women workers in the formal economy. In the case of paid maternity leave, the options are as follows:

- Extend the provisions of Employment Acts;
- Add paid maternity leave to the coverage of the Provident Funds;
- Add paid maternity leave to sickness insurance cover;
- Add paid maternity leave to accident insurance cover;
- Include paid maternity leave in social welfare/family assistance cover; and
- Set up a new programme based on the taxation departments.

Comments on the feasibility of each of these approaches follows. The main criteria use in assessing the options are the feasible sources of data on the identity and earnings of claimants, the extent to which a payments mechanism can utilise existing channels, and the existence of methods to collect funding for the scheme.

(i) Extending the provisions of employment acts

An option is to extend the provisions of Employment Acts in each of the five countries to require employers to pay maternity leave to all qualifying women employees.

This is the currently proposed Fijian approach. It would also be an improvement on the status quo in Samoa, and Kiribati, and could accommodate some improvement in conditions in Vanuatu and the Solomon Islands. However, there are distinct limitations in this approach, as the experience of Vanuatu and the Solomon Islands already demonstrates.

- Employer liability programmes are difficult to enforce, with substantial non-compliance occurring amongst smaller employers;
- As well as missing out on paid maternity leave, women workers may face increased job discrimination or job loss if employers perceive pregnant women as being too expensive to employ;
- The cost of maternity leave can impact heavily and adversely on some small employers;

- The impact is also particularly heavy on employers with a high proportion of women staff. This is likely to be the case with the Fijian textile and clothing industries; and
- The approach is not one recommended by the ILO.

Hence, this is not the preferred option.

(ii) Adding Paid Maternity Leave to Provident Fund Coverage

A second option is to add paid maternity leave to the programme coverage of existing provident funds. This approach would seem to have a number of advantages:

- There is an existing data base on the declared earnings of women employees which can be used to calculate maternity pay entitlements;
- Additional administrative costs would be relatively low, because the administrative apparatus to collect funding and make payments already exists;
- Because costs are pooled, there would be limited adverse impact on individual employers;
- The situation of women who have multiple employers or who move between different employers is protected;
- Women workers would be protected against the risk of job loss from pregnancy; and
- The existence of paid maternity leave might boost voluntary provident fund membership by women in the cash earning part of the informal economy.

The main issues would be political acceptability of the approach, and the additional costs and how they were to be covered.

The cost of paid maternity leave in the Pacific could require additional payroll levies of between 0.3 and 0.8 per cent depending on the specific parameters of the schemes chosen and the country concerned. Details of indicative calculations for individual countries are shown in Part III of this report.

An issue is whether these extra levies should be paid by employers only, or shared between employers and employees. It may be noted that in the case of public sector employees and those companies now providing paid maternity leave,

the cost of any extra levy would be largely or completely offset by the reduction in obligation to pay directly for maternity leave.

(iii) Adding paid maternity leave to health insurance cover

An option which would be viable in Samoa would be to add paid maternity leave to the proposed compulsory health insurance scheme. This approach could be extended if some other Pacific Island Countries set up mandatory health insurance schemes.

In this case most of the considerations would be similar to those set out above for adding paid maternity leave to provident fund cover.

An advantage would be the possibility of including maternity pay in a package which provided for improved medical care for ante-natal, delivery, and post partum medical care in cases where existing public services are deemed to be inadequate. Maternity linked medical care could extend to wives of male employees as well as women employees. This provision might help to overcome objections from male employees to contributing to a programme which otherwise benefited only women employees.

(iv) Adding paid maternity care to accident insurance cover

An option which also currently applies only to Samoa would be to use the Accident Compensation Insurance Scheme as the vehicle for delivering paid maternity leave. This also has the existing data bases and administrative set-up covering formal sector employees.

While most of the considerations are similar to those for the provident fund and health insurance options, it may be a second choice only because the focus of accident compensation insurance is very different. This may mean that paid maternity leave does not fit particularly well with the rest of the business.

(v) Using the social welfare or family assistance scheme as a delivery mechanism

In the case of Fiji, an option would be to add paid maternity leave to the existing social welfare service known as the Family Assistance Scheme. This Fijian scheme already provides benefits at low rates to sole parents, and an option is to use the Family Assistance delivery

mechanism to deliver a paid maternity leave scheme.

However, the administrative cost of doing this is likely to be higher than for several of the other options. The Department of Social Welfare which runs the FAS scheme would have no records of earnings of new mothers, and would have to obtain these either from employers, or more probably from the Provident Fund. It would also have to set up additional payment arrangements and compliance systems for checking on dates of return to work. If it was responsible for collecting levies to fund the paid Maternity leave, it would have to duplicate the collection arrangements already existing for the Provident Fund.

Hence, on balance this does not look like a good option for formal economy workers. It could be an approach for giving some types of maternity grants or subsistence assistance to informal economy workers.

(vi) Using the tax department as the mechanism.

A further option is to adopt aspects of the New Zealand model. This involves funding the cost of the scheme from general taxation, and using the taxation department to pay due amounts to women eligible for paid maternity leave.

However, there are problems with this approach for all five countries. In New Zealand income taxation is levied on the whole earning population. The New Zealand taxation department (Inland Revenue) also collects accident compensation levies. Hence it has good data on the earnings of the whole population. This is not the case in all of the five Pacific Island countries. Only part of the economically active population is covered by income taxation in four of the countries, while in Vanuatu there is no personal income taxation.

Hence, this approach does not currently seem feasible in the five Pacific Island countries.

(vii) Summary

Of the options considered above, adding a paid maternity leave programme to the existing provident fund programme coverage seems the most feasible option for administering paid maternity leave for formal economy workers in four of the five countries. In the Samoan case there would seem to be a choice between

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provident fund and health insurance as carrying agents for a paid maternity leave programme.

Fiji could potentially use its family assistance scheme to deliver some type of grant or assistance to informal economy workers.

17.13.7 Interface issues

(i) Dealing with the interface with existing paid maternity leave

In setting a rate for the level at which payment is made, thought needs to be given to how to deal with the interface with any existing paid maternity leave arrangements. For example, if maternity leave is to be paid at two thirds of salary in line with the ILO minimum standards convention, this would create a potential anomaly in cases where public sector employees and a few private sector employees already get 100 per cent of salary as paid maternity leave. Payment at a 100 per cent rate currently applies to public sector employees in Vanuatu, the Solomon Islands, and Kiribati. A few large private sector organisations also pay maternity leave at 100 per cent of salary.

Options for dealing with this differential include:

- Equalising all paid maternity leave at the new standard rate;
- Having differential levies for organisations which pay at different rates; and
- Allowing organisations with higher rates to pay supplements on top of standard paid maternity leave.

Equalising all maternity leave at the new standard rates would involve a downward adjustment of existing paid maternity rights in some cases, unless the new standard rate were to be 100 per cent of pay. In all other cases, the approach would be likely to lead to resistance to the new standard by workers currently covered by more favourable existing arrangements. Accordingly, this approach is not proposed.

Differential levies to pay for different percentages of paid maternity leave are in theory possible, but likely to lead to confusion and complexity in levy setting, and problems in determining entitlements when individual women move between different employers with different standards. Accordingly this approach is not proposed.

Allowing existing organisations with higher rates to **pay a supplement** on top of the new standard paid maternity leave seems the most sensible approach. This avoids complicating the levy and maternity pay setting arrangements. Provision for supplements could be incorporated in employment agreements where these are the existing mechanisms for such payments

17.13.8 Problems with covering the self-employed

One difficult issue would relate to levy rate setting for women workers in the informal economy who chose to become voluntary provident fund members in order to access the paid maternity leave scheme. If women (but not men) from the informal economy became members, a standard rate of contributions set at the level applicable to wage and salary earners would not cover costs, since in the formal economy where provident fund membership is compulsory, both men and women (or their employers on their behalf) would be paying the extra levy.

A related problem would be with self-employed couples in the cash economy, who might chose to attribute most of their joint income to the woman in the year prior to giving birth.

There is no easy solution to this problem. A possible approach is a longer minimum provident fund membership period requirement before informal economy workers who join the scheme and become eligible for paid maternity leave. It may also be necessary to require joint membership of husbands and wives where they are involved in a joint economic enterprise, or even requiring all the members of this enterprise to join the provident fund.

17.13.9 Maternity protection in the informal economy

Developing options for improving maternity protection for women involved in the informal economy involves a more difficult set of issues. Outside of the group of women employed in the formal economy and covered by existing provident funds, there are three other main and partly overlapping groups of women who may be in need of some maternity protection measures.

- Women involved in self employment in the cash economy;

- Women involved in subsistence economic activities in the traditional economy; and
- Women largely involved in domestic and family duties.

The three categories are not mutually exclusive, as categorisation is an issue of predominant orientation. Women involved in family businesses which earn cash may themselves be unpaid family workers. Women largely involved in subsistence production for family and community use may sell some products or handicrafts for cash. Similarly, women involved largely in domestic and family duties may at times involve themselves in subsistence production or sale of some produce. There are also some groups of women who do not fit in the three main categories, such as tertiary students.

The comments which follow relate to the three areas of maternity protection needs: income replacement, medical care, and out of pocket expenses.

17.14.10 Income replacement

Cash income replacement has the most relevance to the group of women who are cash income earners in the informal economy. In principle, this group could be incorporated into contributory maternity protection coverage either by:

- extending the boundaries of mandatory membership of provident funds (or of other institutions incorporating maternity leave arrangements) to include categories of self employed; or
- offering the option of voluntary Fund membership to self employed women in the cash economy.

In either case, membership fees would have to be set on a somewhat different basis to that applying to wage and salary earners. In principle, contribution rates for self-employed people need to incorporate both employer and employee contribution components. There is also the awkward problem that membership of self-employed women alone does not provide the same revenue flow as does a scheme levying both male and female employees, as is the case with most social insurance or provident fund schemes.

One possible solution is to offer a variant *standard* package for self employed women at different contribution rates to those applying to employees. Contributions would need to be determined actuarially on a different basis to those for employees.

A second option is a maternity savings scheme analogous to individual health savings accounts. The money saved could be accessed upon pregnancy leave, or if not accessed eventually added to retirement savings balances. However, this approach might not be suitable for young women workers, who would have little in their accounts in the event of early pregnancies. It also does not meet ILO Convention standards.

For women in the **subsistence economy** or other non-earners there would seem to be no realistic contribution base, nor a measurable cash loss associated with maternity. This is not to say that there is not a real economic loss from not being able to engage in subsistence production for a period, but that it is difficult to see how this issue can be fitted into a contributory scheme.

Using Government revenues to provide assistance to women (mainly sole parents) who are non-earners is already part of the Fijian social protection system, but not found in the systems in the other four countries, where traditional family and communal networks are responsible to provide this part of social protection.

17.13.11 Maternity medical care

Each of the five countries has a form of government provision of free or low cost medical services, including ant-natal and maternity care. However, the quality and coverage of this care is variable. Problems of service quality and availability tend to be larger in the more remote and isolated areas.

Outside of the improvement of the health systems per se, options which could improve maternity-linked medical care seem most feasible in **formal economy** via employment-linked health insurance or contributory maternity protection packages for employees. Inevitably, these will tend to be mainly urban based, since most formal economy employees in the five Pacific Island countries are in or near urban areas. Plans for health insurance are most advanced in Samoa, and it would be relatively

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easy to incorporate medical care in this package. Coverage could include:

- Professional ante-natal care;
- Childbirth and delivery; and
- Post natal medical care.

In the other four Pacific Island countries where mandatory health insurance is not currently envisaged, it would be possible to add this coverage into provident fund programmes, the cost to be covered by additional contributions. At this stage it is not possible to cost what funding this would require, as it would be first necessary to determine the split of existing maternity medical costs between any new insurance cover and the government funded health services. This would require a separate costing exercise.

In relation to the **informal economy** improved maternity medical care, only the groups with significant cash income might be able to afford self-funded provision or voluntary medical insurance which incorporates adequate maternity medical care. For the currently larger groups involved in subsistence and semi-subsistence production, the feasible long term solution would seem to be improvement in the range and quality of government provided services funded from general revenues.

17.13.12 *Out of pocket expenses*

Giving birth to a child involves significant out of pocket additional expenses such as provision for clothing and bedding for the baby. These expenses of course continue as the child grows, but the issue of family allowances is outside the scope of this paper.

Current Pacific Island tradition is that these expenses are the responsibility of the family concerned.

In some developed countries there are birth grants when a baby is born to cover some of the out of pocket expenses. If this were deemed to be a priority in the Pacific, options could include:

- For those in **formal employment** it would be possible to add provision for a lump sum birth grant to the paid maternity leave or maternity medical expenses scheme. The

extra cost of this could be incorporated in the levy said to cover the scheme.

- For those in the **informal economy** the options are less clear. Birth grants could be funded from taxation revenues, but would have to compete with other government priorities. Another option would be social assistance birth grants only to the poor. However, only Fiji currently has the administrative capacity to deliver such a programme.

At present then, for most of the countries concerned, the feasible option if birth grants are wanted is to include a lump sum birth grant in the package applying to formal economy employees.

17.13.13 *Summary*

What is currently feasible in terms of introducing or extending maternity protection to employed women in the five Pacific Island countries depends on institutional structures as well as political and economic consideration of priorities.

There is a substantial degree of institutional similarity in the five Pacific Island countries.

- Each has only a minority of its population employed in the formal economy, with majorities of varying size employed in both subsistence and cash generating activities in the informal economy,
- Each also has a well established National provident fund covering wage and salary earners in the formal economy, and
- Medical care is largely delivered by government-funded health services providing free or low cost medical care.

Differences exist in four of the counties (Fiji excluded) in the degree to which paid maternity leave is already provided for in some sectors by employment laws or employment agreements. Other differences include the proposed setting up of sickness insurance in Samoa, and the existence of a family assistance scheme in Fiji.

Given this pattern, the feasible options for expanding maternity protection would seem to be as follows:

- For all five countries, paid maternity leave is currently feasible for employees in the formal sector of the economy. In essence, this is the same group of people who are currently subject to national provident fund membership. As will be set out in the next section, the cost of this is relatively modest;
- For four of the countries (Fiji, Kiribati, the Solomon Islands and Vanuatu), the most practical way to extend paid maternity leave to all formal economy employees is to add the programme to the coverage of the existing provident funds and finance it with a levy collected from the same payroll base as existing provident fund contributions. In the case of Samoa, there is a choice of options of a stand alone programme addition to the provident fund similar to the other four countries, or making paid maternity leave a component of the new health insurance scheme;
- Other than voluntary membership, or extending the scope of mandatory provident fund membership, there is little that can currently be done to provide paid maternity leave to women involved in the cash earning part of the informal economy. The only other option would be tax-funded maternity grants, or in the case of Fiji, social assistance;
- There is even less option in respect of women in the subsistence economy. The only possible option at this stage would be tax-funded maternity grants, with Fiji again having a social assistance option;
- For maternity linked medical care, there are two options:
 - Adopt an insurance approach for women in formal employment only, and fund this by an extra levy added in to the levy needed to fund paid maternity leave. In the case of Samoa the option would be to add it in to the contributory health insurance package;
 - Increase tax funding across the board for improved maternity medical care for all women.
- For employment protection each country would need to review its Employment Act to ensure that women workers taking paid maternity leave were granted adequate protection against dismissal or failure to re-employ.

17.14 Cost estimates for individual countries

In the text which follows, indicative calculations have been made for the cost of paid maternity leave in each of the five Pacific Island countries. The costs are expressed as a percentage of the total payroll (men and women combined) in the formal economy. This has been assumed to be represented by contributors to the provident fund.

The levy rates required have been estimated in terms of the model in the Box.

For Vanuatu data and assumption used are as follows:

- NPF figures indicate that women are 37.3 per cent of VNPF membership.
- Data on relative earnings is not currently available, but on the basis of patterns elsewhere in the Pacific, the earnings of women are assumed to be 90 per cent of those of men and women combined.
- Average employment duration of 30 years is assumed.
- The total fertility rate was 6.1 in 1970-75 and 4.1 in 2000-2005. For the current period 3.5 is assumed, with the number of qualifying births per woman employee being half of this at 1.75
- Maternity pay is assumed to be at two thirds of normal wages for 14 weeks (alternative 12 weeks).

On this basis the calculations are as follows:

$$\begin{aligned}
 \text{Cost Estimate} &= \text{Administrative Cost} + \left[\begin{array}{l} \text{Proportion of} \\ \text{women in L} \end{array} \times \begin{array}{l} \text{Period of} \\ \text{Payment} \end{array} \times \begin{array}{l} \text{Percent of} \\ \text{Wage} \end{array} \times \begin{array}{l} \text{Eligible} \\ \text{Births} \end{array} \times \begin{array}{l} \text{Ratio of} \\ \text{Women's} \\ \text{to total} \\ \text{wages} \end{array} \times \begin{array}{l} 1 \\ \text{Average} \\ \text{Paid} \\ \text{working} \\ \text{life} \end{array} \right] \times 100 \\
 \text{Cost Estimate (net)} &= 0.269 \times 0.667 \times 0.373 \times 1.75 \times 0.90 \times 1/30 \times 100 \text{ percent} \\
 &= 0.351 \text{ percent}
 \end{aligned}$$

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Adding in 10 per cent for administration increases the needed levy rate to **0.39** percent, rounded to **0.4** per cent.

For 12 weeks leave the cost is **0.344** percent, rounded to **0.35** per cent.

The following table summarises indicative estimates by country.

Table 17.2 Indicative estimates by country

Country	Levy Needed to pay for Maternity Leave at 2/3 rd s of Salary	
	14 weeks leave	12 weeks leave
Fiji	0.3	0.27
Kiribati	0.45	0.40
Samoa	0.73	0.63
Solomon Islands	0.45	0.40
Vanuatu	0.40	0.35

Box 17.1 Calculation model

The cost of a paid maternity leave system for employed women workers funded by a contribution rate C, expressed as a percentage of wages for all workers (both sexes) in the scheme, can be estimated by the formula:

$$C = A + F \times T \times B \times E \times W \times (1/D) \times 100 \text{ percent}$$

Where

C is the estimated cost.

A is the administrative cost of running the scheme.

F is the proportion of women in the employed labour force covered by the scheme.

T is the time period the maternity leave is paid for.

B is the percentage of the female workers wage the maternity leave benefit represent.

E is the average number of number of eligible births per woman worker in the scheme.

W is the average ratio of women's wages to all wages (both sexes combined) for women workers claiming paid maternity leave.

D is the average paid working life of workers in the scheme.

The administrative cost figure will need to be calculated separately from other data which will depend on the country in question. However, the rest of the equation can be demonstrated by putting in representative figures.

Example 1

Suppose that women workers represent 40 per cent of the labour force covered by the scheme.

The period of paid maternity leave is 3 months or one quarter of a year.

The paid maternity leave benefit is paid at 70 per cent of the woman workers normal wage.

On average, women workers in the scheme have 1.2 children while eligible for paid maternity leave.

Women's wages for those claiming paid maternity leave average 90 per cent of wages for the covered labour force as a whole.

Workers are employed for an average of 30 years in the paid work force covered by the scheme

On this basis the levy rate required to fund paid maternity leave is as follows:

$$C = A + F \times T \times B \times E \times W \times (1/D) \times 100 \text{ percent}$$

$$C = 0 + 0.4 \times 0.25 \times 0.7 \times 1.2 \times 0.9 \times 1/30 \times 100 = 0.252 \text{ percent}$$

Hence, a levy of 0.252 per cent on wages is required to fund this scheme, apart from administrative costs

As may be noted, the actual cost of paid maternity leave is likely to be able to be covered by a very low levy on wages or payroll.

Example 2

Suppose that women represent 45 per cent of the labour force covered by the scheme.

The period of paid maternity leave is 14 weeks in line with ILO Convention No.183.

Reflecting higher Pacific birth rates, women workers have an average of 2 eligible children while in paid employment.

Paid maternity leave is set at two thirds of normal pay for the woman concerned, in line with ILO Convention.

Women participating in the scheme earn an average of 85 per cent of the wages of all employees contributing to the scheme.

Average length of employment in the formal sector is only 20 years for men and women combined.

On this basis the required levy rate to pay for the scheme (excluding administrative costs) is measured by:

$$C = A + F \times T \times B \times E \times W \times (1/D) \times 100 \text{ percent}$$

$$C = 0 + 0.45 \times 0.269 \times 0.667 \times 2.0 \times 0.85 \times 1/20 \times 100 = 0.686 \text{ percent}$$

Hence, a levy equal to 0.686 per cent of wages would be required to cover cost excluding administrative costs.

17.15 Comments on assumptions

The examples shown above is illustrative only, although the low percentage levy on wages or payroll calculated as needed to fund this scheme is in fact characteristic of paid maternity leave schemes as a whole. As regards each of the assumptions, the following comments are made:

- **Women in the workforce** In most countries the proportion of women in the paid work force is under 50 per cent of the total paid work force.
- **Length of leave** Paid maternity leave in the range 12-14 weeks is the most common pattern, though a few countries provide for much longer periods, or add extra leave for *exceptional circumstances* such as medically traumatic births. A few countries (e.g. Sweden) also give some paid parental leave to fathers. The new ILO standard is 14 weeks
- **Level of payment** The proportion of normal wages provided as paid maternity leave varies widely. A number of European countries provide for full normal pay, i.e. a 100 per cent benefit/wage ratio. In the Caribbean a 65 per cent ratio is more common. New Zealand provides for full pay up to a figure which is about half the average wage, but thereafter no additional amounts are payable so a woman on average earnings receives only around half of her normal wage as paid maternity leave. The ILO standard is two thirds of normal pay or earnings.
- **Eligible births** The number of eligible births may vary widely by country. It is low in countries with low birth rates, and is also affected by traditions of whether women tend to drop out of the paid labour force for a period after having their first child. In this case they would not be eligible for payment for subsequent births. In developing Pacific countries higher figures seem likely than in developed countries. How much higher is unclear, especially as census data for Pacific counties indicates smaller average numbers of children per woman in the urban areas where the majority of formal sector employment for women is concentrated.

Other offsetting factors could include the impact of temporary or permanent worker emigration in countries such as Samoa and Fiji. Movement out of the country of women workers, either for employment abroad or as spouses of migrating male workers, will tend to reduce eligible births occurring while in the country. The extent to which this factor balances against shorter average periods of contribution-paying employment in terms of net cost impact on a paid maternity leave scheme is unclear.

It may be noted that in New Zealand despite the predominance of formal economy employment for women, only 30 per cent of total births have qualified the mother concerned for paid maternity leave. This is despite the fact that the number of children per woman is only 2 on average.

- **Covered earnings** In most countries women on average receive lower actual pay than men even though the rate for the job may be identical. Factors causing the difference include occupational structure and job seniority. In the case of women in the peak childbearing years lower average seniority compared to other employed women may also push the wage ratio downwards. A further factor which could push relative rates of covered earnings downward is the effect of women returning to work and giving birth again before the eligibility period for a full rate of payment has built up. For example if eligibility were based on earnings in the previous 12 months, and a woman gave birth 10 months after returning to work, the payment rate would be 1/6th lower.
- **Duration** In most developed countries long duration in paid employment is characteristic for men, and now increasingly so for women. Average length of paid employment may be significantly lower in developing Pacific countries because of movements to and from informal employment, and in some of the countries also because of worker emigration. If this is so, it will tend to push up the relative cost of paid maternity leave, since there will be a smaller base of total contributors in relation to maternity leave claimants.

17.16 A standard paid maternity leave model

Eligibility

All women who have been contributing members of the national provident fund for the six months prior to giving birth.

(Alternative option: All women who are members of the National Provident Fund)

Covered earnings

Average total earnings upon which provident fund levies have been paid in the 12 months prior to the claim for paid maternity leave. Where the woman concerned has been in contributory employment for less than 12 months, the earnings rate used for determining entitlement is adjusted downwards on a pro rata basis.

Period of Paid Maternity Leave

14 weeks of paid maternity leave. Normally to be taken in the 6 weeks prior to giving birth, or the expected birth date, and 8 weeks afterwards, unless medical advice indicates otherwise, or the birth occurs earlier than expected.

Payment Rate

Two thirds of covered average weekly earnings for the 14 weeks, or for a correspondingly lesser period if the claimant returns to paid employment before the 14 weeks have elapsed.

Status of Payments

Paid maternity leave is treated as normal income for Provident Fund and Taxation purposes. It attracts normal Provident Fund levies, and accrues normal entitlements other than Paid Maternity Leave.

Administering Body

The provident fund, or such other organisation as the government designates.

Supervising Body

The Ministry of Labour or such other body as designated by the government.

Funding Levy

Option 1.

Levy paid by the employer.

Option 2.

Levy cost shared between employers and employees as with provident fund contributions

Retention of Rights

While on paid maternity leave the claimants retain all existing employment linked rights. Maternity leave counts as employment service for the purpose of calculating these other rights

Optional Extras:

1. Maternity medical insurance to cover ante-natal, delivery and post natal care.
2. Lump sum maternity grants.

Chapter 18 Operations and Information Technology for the Vanuatu National Provident Fund

18.1 Background

The Vanuatu National Provident Fund (VNPF) has around 17,700 active members, out of a total of 46,000 registered members, and just over 2000 registered employers. Contributions are payable monthly at the rate of 8 per cent of salary – 4 per cent from employers, and 4 per cent from employees.

The VNPF has been through a series of major organizational changes since 1999, when a new General Manager was appointed. The organization has moved to flatter structures, with much emphasis given to management training, and the provision of management tools to improve efficiency and effectiveness. With major problems having occurred within the computer systems preventing reconciliation between member records and the accounting system, high priority was also given to the development and implementation of new IT systems.

The VNPF now maintains a very tightly controlled and simple provident fund operation; it allows only one withdrawal per member – on retirement, permanent migration to another country, death of the member, or permanent incapacity preventing employment. It does not allow loans to members, or any other services.

Much emphasis is placed on ensuring that all data is correct and complete before being entered into the computer system. All employees must be registered prior to the payment of contributions on their behalf, and contribution payments are not accepted until all accompanying documentation has been checked and verified, including both manual checking and checking against the computer records. Because the VNPF issues monthly pre-printed schedules to employers and needs to apply change data only to member records, data entry can be undertaken "on the spot" as the employer lodges the monthly contribution payment and schedules, and the records updated prior to the issue of a receipt.

If there are any errors or omissions (e.g. an unregistered employee) the payment and schedules are returned to the employer for correction. The onus is with the employer to

provide correct data as part of the contribution payment process, and delay caused by the need to correct data does not release the employer from the obligation to pay by the due date, after which penalty surcharges are applied.

Strict checking processes are applied also to employer and employee registrations, and to withdrawals. At first glance it would appear that the manual checking is overdone, with documents and data records re-checked and verified at each step in the operational process – however the layout of the office allows this to be carried out smoothly and efficiently with the result being that all staff are aware of the need to ensure that all data entered into the computer is 100 per cent accurate. Employers are encouraged to use electronic media for their contribution schedules where possible, allowing for the checking process to be carried out using the computer system. The VNPF is progressive in its use of computer systems, catering for contributions schedules to be lodged via e-mail, is looking at the potential of further use of the internet in its operations, as well as the use of fingerprint scanning and matching technology.

The development, implementation and maintenance of the computer system has been outsourced to a company located in New Zealand, who also provided user training at the time of implementation. The consultants have online access to the system, which facilitates problem solving and attending to requests for changes to the system. While the system appears quite easy to use and meets the day-to-day requirements of the users, there are numerous complaints from users about the response times taken by the consultants to respond to their requests for change and the debugging and fixing of program errors. In one case where individual employees randomly disappear from pre-printed schedules the problem has been recurring since 2001, despite numerous attempts to repair the problem.

Compliance also remains one of the major problems with the fund, but through the determined efforts of the VNPF positive results are beginning to show.

Feasibility Studies

Of the roughly 2000 employers, 377 have arrears of contributions exceeding 3 months. Another 683 have been detected as failing to register; however prosecution proceedings are underway for 17 of these employers, and the threat of prosecution has already caused some employers to comply with their obligation to pay the required contributions on behalf of their employees. Charges are being prepared for the prosecution a further 26 employers.

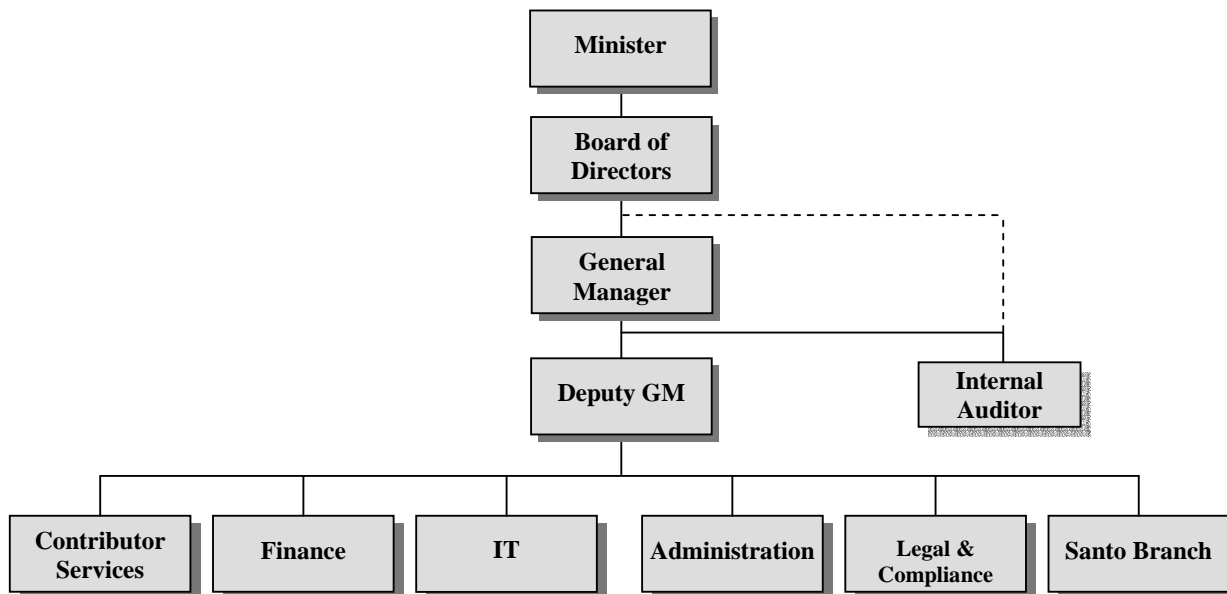
18.2 Administration

The VNPF is responsible to the Minister for Finance through a tripartite Board of Directors consisting of 6 members:

- two representing the government (nominated by the Minister for Finance and the Director General of the Prime Minister's Department)
- two employer representatives (from the Chamber of Commerce), and
- two representatives of the members (one from the Union, one from the Public Service Association).

The VNPF has a staff of 35, of whom 31 are located in Headquarters in Port Vila and 4 in the branch office on the island of Santo (located about 400 km from Port Vila), organized as follows:

Figure 18.1 VNPF organisation



The core business activities of the VNPF are similar to those of any provident fund:

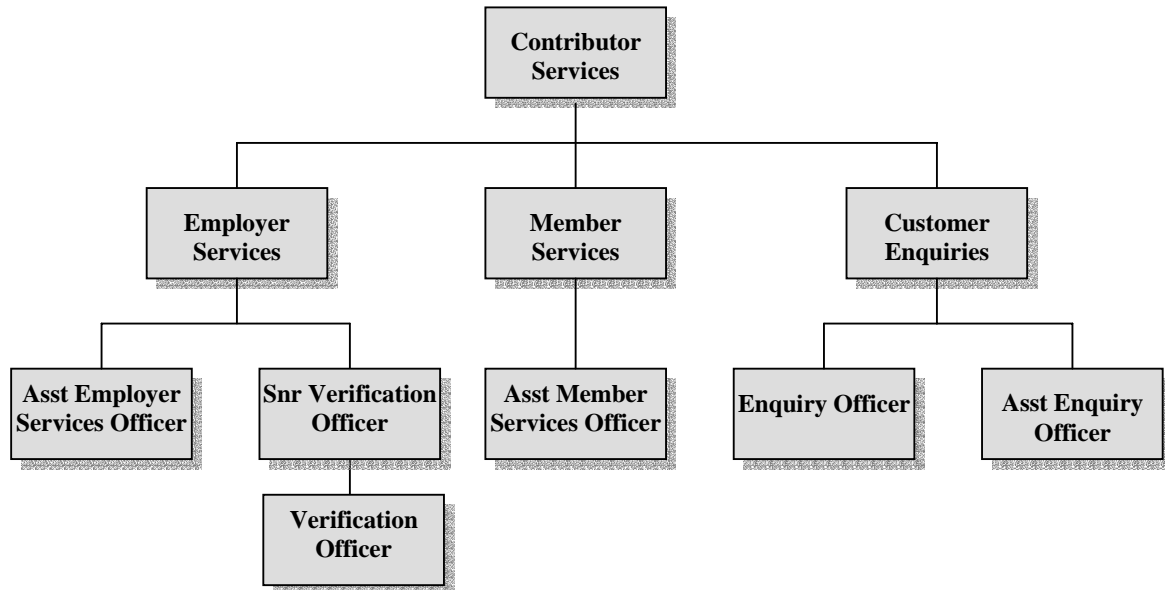
- registration of employers;
- registration of employees;
- collection and recording of contributions;
- maintenance of member accounts;
- withdrawal of member funds;
- financial reconciliations;
- investments and property management

- ensuring compliance with the legislation.

Contributor services department

The Contributor Services Department has a total of 9 staff divided into three sections, the Employer Services Section, the Member Services Section, and the Customer Enquiries Section, organized as follows:

Figure 18.2 Contributor services department



The **Employer Services Section** has responsibility for:

- the processing of new employer registration applications;
- printing of employer registration certificates;
- the maintenance of employer records (change of details etc.);
- the printing, sorting, enveloping and dispatch of monthly pre-printed contributions schedules;
- the receipt, checking, data entry and verification of monthly contribution schedules;
- daily reconciliation of the employers' ledger;
- response to telephone/mail requests for information, complaints etc;
- the recording of all telephone, mail contact with employers;
- the receipt and processing of monthly contributions schedules;
- the monthly follow-up of non or late payment of contributions;
- the application of surcharges for late payments;
- the processing of employer survey forms, and
- response to employer correspondence.

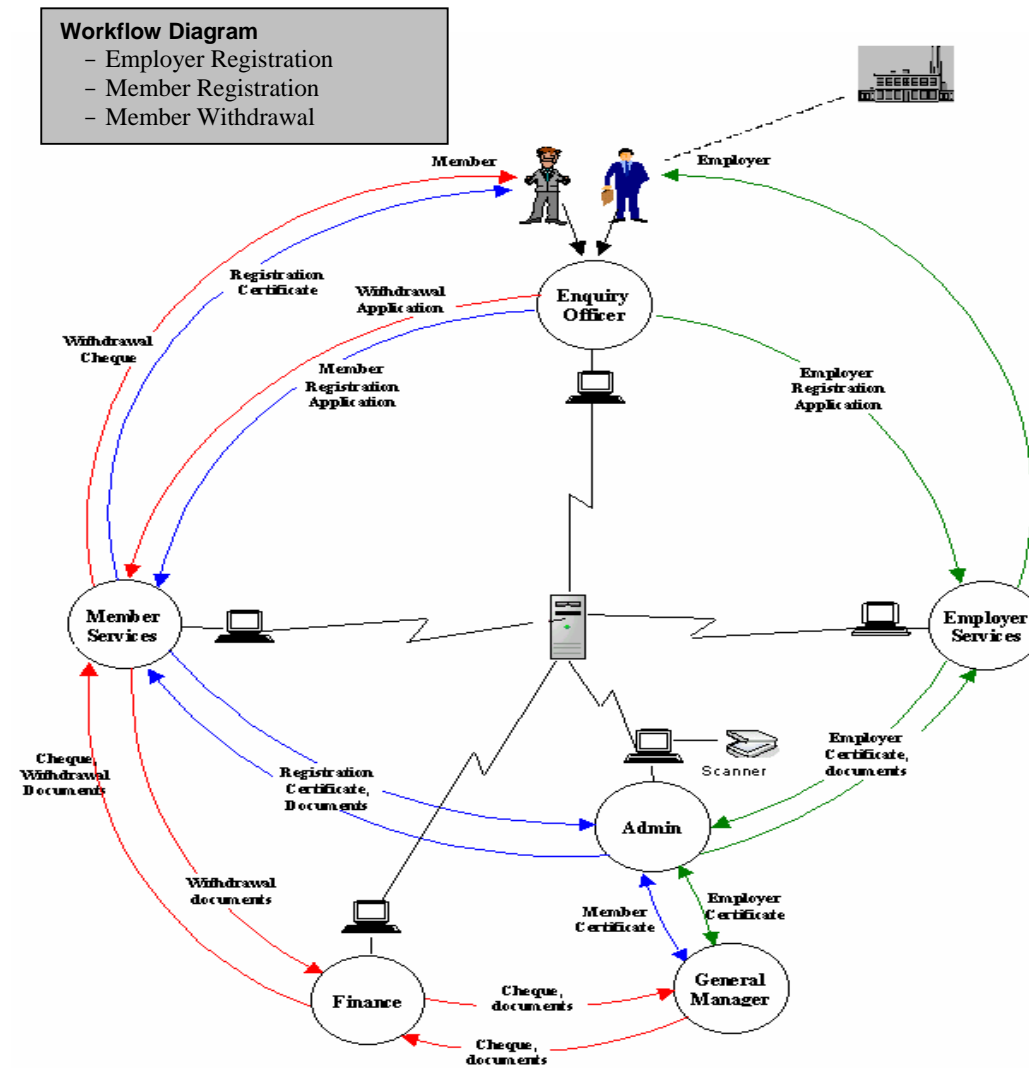
The **Member Services Section** has responsibility for:

- the processing of new member registration applications;
- the printing of member certificates;
- the maintenance of member records (checking, data entry and verification of member change of details etc);
- the maintenance of nominee data;
- response to telephone/mail requests for information, complaints etc;
- the recording of all contact with employers and members;
- the acceptance, checking, data entry and verification of withdrawal applications;
- the printing, enveloping and dispatch of members' annual statements;
- daily reconciliation of the members' ledger;
- monthly follow-up of non-contributing members.

The **Customer Enquiries Section** is responsible for:

- attending to all counter and telephone enquiries and complaints;
- ensuring response to all enquiries and complaints;
- attending to enquiries/complaints by mail;

Figure 18.3 Workflow overview diagram



18.3 Employer registration process

When new employers contact the office about registration with the VNPF, the office will provide them with instructions and the registration form either at the office or by mail. (Forms are printed in English, French, and Bislama). If a telephone call is involved, details are recorded on an “Enquiry Control Sheet” which is subsequently scanned into the employer record in the Document Management System (DMS).

Figure 18.4 Employer registration application (Front)


APPLICATION REF. NO. <input style="width: 90%;" type="text"/>	FORM E																								
 <p>Vanuatu National Provident Fund Caisse Nationale de Prévoyance de Vanuatu</p> <p>Vanuatu National Provident Fund</p>																									
<p>APPLICATION FOR REGISTRATION FOR EMPLOYERS DEMANDE D'ENREGISTREMENT POUR EMPLOYEURS APLIKESAN FOM BLONG REJISTRESEN BLONG OL EMPLOYAS</p>																									
<table border="1" style="border-collapse: collapse;"> <tr> <td colspan="6" style="text-align: center; font-size: small;">For Office Use Only</td> </tr> <tr> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> </tr> </table>		For Office Use Only																							
For Office Use Only																									
<p>1. Name of Business / <i>Nom de la société / Nem blong Bisnis</i></p> <input style="width: 95%; height: 20px;" type="text"/>																									
<p>2. If your trade name is different from Business name, please indicate the trade name in the case below. <i>Indiquez le nom commercial si il est différent du nom de la société.</i> <i>Trade nom sapeos ikat (ino bisnis nem), pls roteme klia.</i></p> <input style="width: 95%; height: 20px;" type="text"/>																									
<p>3. Address / <i>Adresse / Adres</i></p> <input style="width: 95%; height: 20px;" type="text"/>	<p>4. Date of commencement of business / <i>Date de commencement de l'activité / Dat we yu les sistem klenie</i></p> <p style="text-align: center; font-size: small;">d . d . m . m . y . y . y . y</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> </tr> </table>																								
<p>5. Date of first becoming an employer / <i>Date à laquelle vous êtes devenu employeur / Dat we yu tekem/kamgan taes</i></p> <p style="text-align: center; font-size: small;">d . d . m . m . y . y . y . y</p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> </tr> </table>									<p>6. Telephone number / <i>Numéro de téléphone / Namba blong telefon</i></p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> </tr> </table> <p>Fax number / <i>Numéro de télécopie / Namba blong fax</i></p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> </tr> </table>																
<p>7. Do you have a Business Licence? / <i>Avez-vous une Patente Commerciale? Yu kat wan Bisnis Laesens?</i></p> <p style="text-align: center; font-size: small;">(If yes, please attach copy of Business Licence and write your Business Licence number in the case below.) <i>(Joignez une copie de la Patente et indiquez votre numéro de patente dans la case ci-dessous.)</i> <i>(Sapeos yu kat Bisnis Laesens, bae yu tekem wan kopi mo roteme roteme blong Bisnis Laesens long box la.)</i></p> <p style="text-align: center;">Yes <input type="checkbox"/> No <input type="checkbox"/></p> <p>Business Licence Number / <i>Numéro de la Patente Commerciale / Namba blong Bisnis Laesens</i></p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> <td style="width: 15%; height: 20px;"></td> </tr> </table>																									
<p>8. Place of registration of business / <i>Lieu d'enregistrement de la société / Ples we kampani / rejista long bea</i></p> <p style="text-align: center; font-size: small;">State / <i>Ville / Taqa</i> Name of Country / <i>Nom du Pays / Nem blong kantri</i></p> <table border="1" style="margin-left: auto; margin-right: auto; border-collapse: collapse;"> <tr> <td style="width: 50%; height: 20px;"></td> <td style="width: 50%; height: 20px;"></td> </tr> </table>																									
<p>9. Location of business / <i>Emplacement de l'activité / Ples we bisnis / stap</i></p> <input style="width: 95%; height: 20px;" type="text"/>																									

Figure 18.4 Employer registration application (Back)

10.	Please indicate briefly the nature of your Principal Business Activity / Décrire brièvement principale de votre société / Wanens kaon bisnis :	Office Use Only
<input style="width: 90%; height: 20px;" type="text"/>		
11.	Branches (if any) / Des filiales (s'W y a Bou) / Narafala braens (sapos ikat) : Location / Emplacement / Plas we istap :	Trade name / Nom de la compagnie / Trade nam :
<input style="width: 45%; height: 20px;" type="text"/> <input style="width: 45%; height: 20px;" type="text"/> <input style="width: 45%; height: 20px;" type="text"/>		<input style="width: 45%; height: 20px;" type="text"/> <input style="width: 45%; height: 20px;" type="text"/> <input style="width: 45%; height: 20px;" type="text"/>
12.	Number of employees currently employed by the organisation : Nombre d'employés travaillant actuellement pour l'entreprise : Namba blong ol wokman naola wetem kampani ia :	<input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/>
13.	If there are employees currently in your payroll, please indicate on attached form E/b. Veuillez indiquer sur le formulaire E/b les employés figurant sur votre fichier des salaires / Sapos yu kat sei wokman, plis bae yu raatem detail blong olgata long fom E/b.	
14.	Please state the full name and designation of the officer to whom communications should be directed to. Veuillez indiquer le nom et la fonction de la personne à contacter pour toute correspondance. Plis raatem nem mo kontak blong wan ofisa we bae oli kontaktem hem blong ol kuesten relet long eni wok blong Vanuatu Nasonal Providen Fand	
Full name / Nom / Nam <input style="width: 80%; height: 20px;" type="text"/>		
Position in business / Fonction au sein de l'entreprise / Posisen insaed long bisnis : <input style="width: 80%; height: 20px;" type="text"/>		
15.	Certification of Employer / Attestation de l'employeur / Certifikesen blong boss I certify that the information given on this form is true and correct / J'atteste que les renseignements fournis dans ce formulaire sont exacts / Mi agree se ol toktok we istap long fom ia hemi tru mo hemi strat.	
Signature / Saen <input style="width: 80%; height: 20px;" type="text"/>		Position in business / Fonction au sein de la société / Posisen insaed long bisnis <input style="width: 80%; height: 20px;" type="text"/>
<input style="width: 80%; height: 20px;" type="text"/>		Date / Deit / Date d d m m y y y y <input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/> <input style="width: 20px; height: 20px;" type="text"/>
Full Name (block letters) / Nom (en lettres capitales) / Ful Nam (long bigfala leta)		

The employer completes the registration form, and also provides a list of all employees. All employees must be registered before the employer registration can be processed.

Figure 18.6 Member record

The Assistant Employer Service Officer calls up the new registration screen and keys in the employer details, and the system checks whether the system already has the same or similar employer name on the database. If so, the application is returned to the employer for change. If no duplicate name exists, the system will generate a new employer number, which is written in relevant section of the application form.

Figure 18.7 Employer registration

When entry is complete, the Employer Services Officer verifies that the entry is correct, and authorizes the registration on the system which then will generate:

- the employer registration certificate
- the pre-printed contributions schedules for each month of arrears contributions are generated, and
- an address label for enveloping.

Figure 18.8 Employer registration certificate

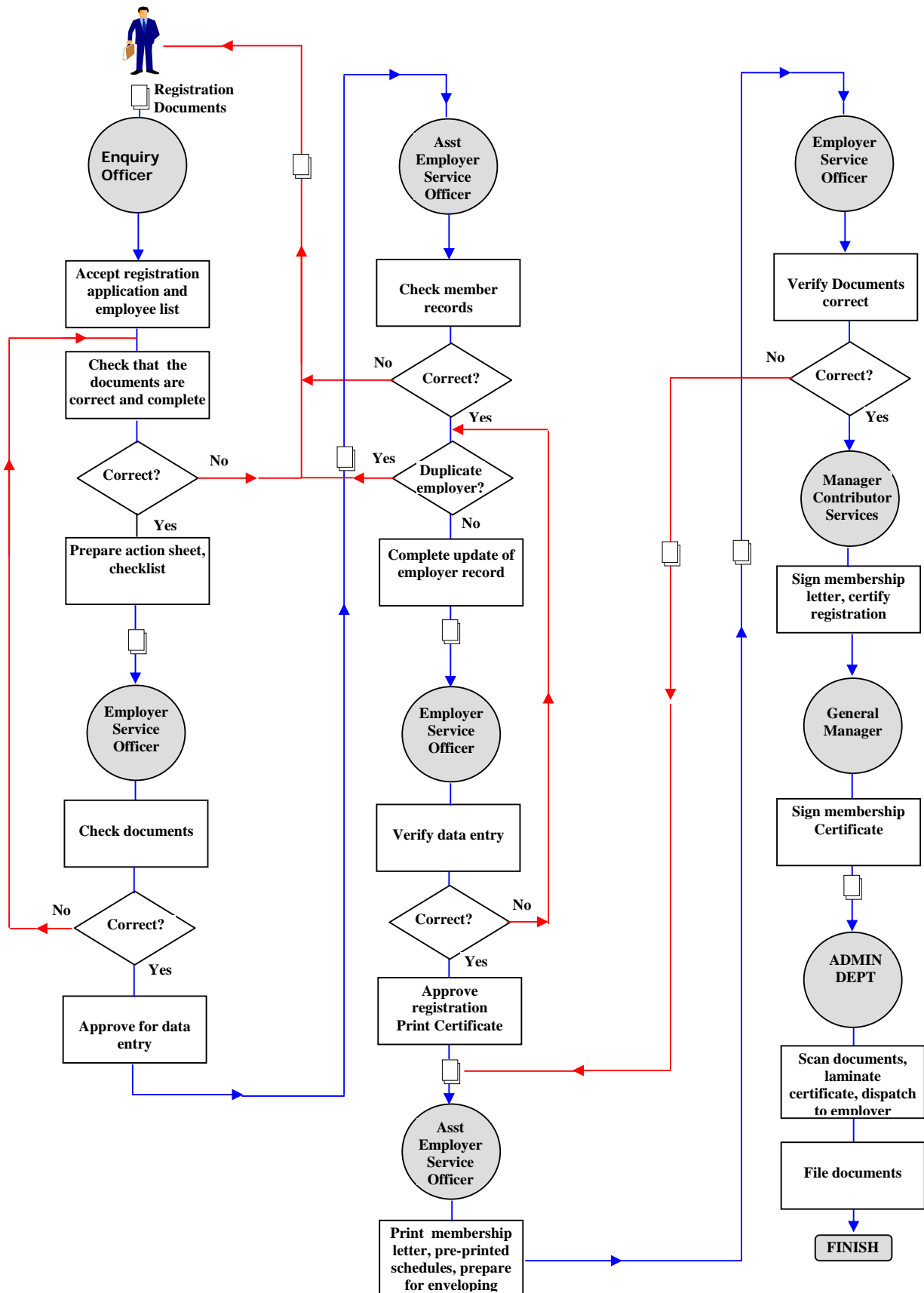


The action sheet docket and the checklist are updated, and all documents including the certificate and the schedules are passed back to the Employer Services Officer. All documents are rechecked, the action sheet and checklist are updated, and the documents passed to the Manager Contributor Services, who checks all documents and signs the employer certificate letter before referral to the General Manager for the signing of the Registration Certificate. After the certificate has been signed, the documents are

passed to Administration for scanning into the Documents Management System. The certificate, a copy of the employer details, the pre-printed schedules and an information kit are then posted to the employer. The employer registration process is then complete.

The salary and contributions details for each employee are subsequently completed by the employer (eg salary/wages amount, contributions amount) for each schedule, and are submitted to the office with the payment of the arrears.

Figure 18.9 Employer registration process



The Assistant Member Services Officer calls up the new member screen (Menu B31) and creates

the new record by keying the data from the application form into the system.

Figure 18.11 New members screen

The system will automatically check for duplicate records for the same employee, and if found, will prevent the operator from proceeding with the registration process. The employer details are added to the member record before moving to the nominee screen.

The nominee details are then entered on the nominee screen.

The action sheet and checklist are then updated, the member status recorded as “entered” by the

Assistant Member Services Officer, and the documents returned to the Member Services Officer, who accesses the member’s record, verifies the member record against the original registration form and the paper documents, and changes the status to “Member”, which causes the member certificate to be automatically printed out. The member number is noted on the application form, and the action sheet and checklist updated.

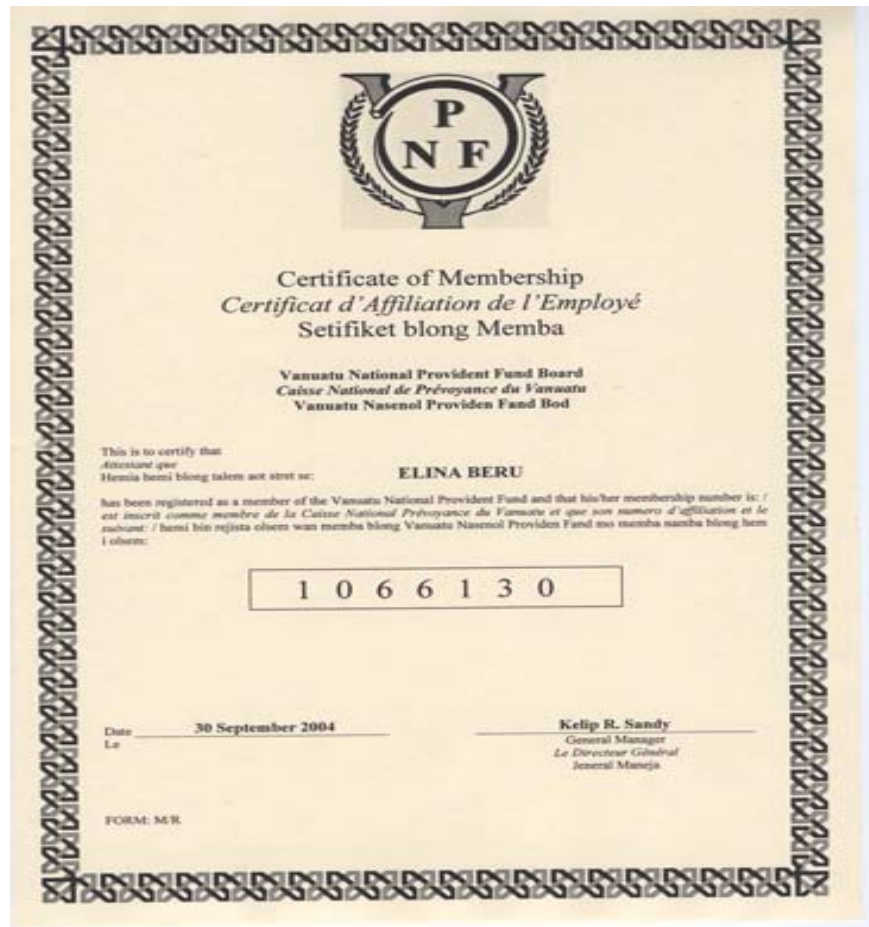
Figure 18.12 Member nominee screen

The screenshot shows a software window titled "B31 - Member Maintenance" with the "VNPf Millennium" logo in the top right. The window contains a form for entering member details. At the top, it says "ESC to complete, DEL to quit". The "Member Details" section includes:

- Member Number: 1067583 B311
- Name: LINETTE MABON RUWA MASERANBAN
- Previously contributed to VNPf: N
- Employer: 12998, Title: 421, Start Date: 23/05/2005, End Date: (blank), Salary: 20000.00
- Spoken Language: B, Preferred Language: B
- Living Arrangement: F, Citizen of Vanuatu: Y
- Prov of owned home: (blank)
- Entered By: tedzura, Registration Date: 03/08/2005
- Date Entered: 03/08/2005

On the right side of the form, there are several fields: B31, 1067583, ENTERED, 0, F, 27/11/1985, N, 48694, S, 4, and BIRTH.CERT. At the bottom right, there are "OK" and "Cancel" buttons. A "NUM" button is located at the bottom right corner of the window.

Figure 18.13 Member certificate



The documents are then passed back to the Assistant Member Services Officer who

- prints out the address labels;
- prints membership confirmation letter;
- prepares the envelopes;
- passes all documents to the Member Services Officer for verification.

The Member Services Officer then verifies that all documents are complete and correct, records the registration in a register, and passes the documents to the Manager Contributions Services, for final checking of the documents against the computer record and signing of the

membership letter. The documents are then passed to the General Manager for the signing of the membership certificate.

The documents are passed to the Administration Department where the certificates are laminated, and the documents scanned into the Documents Management System. The certificate and relevant documents are then dispatched to the member, and the remaining documents filed away. Other Member Services activities provided for in the application system are listed in the Members Menu B and B3 screens shown below:

Figure 18.14 Members menu B screen

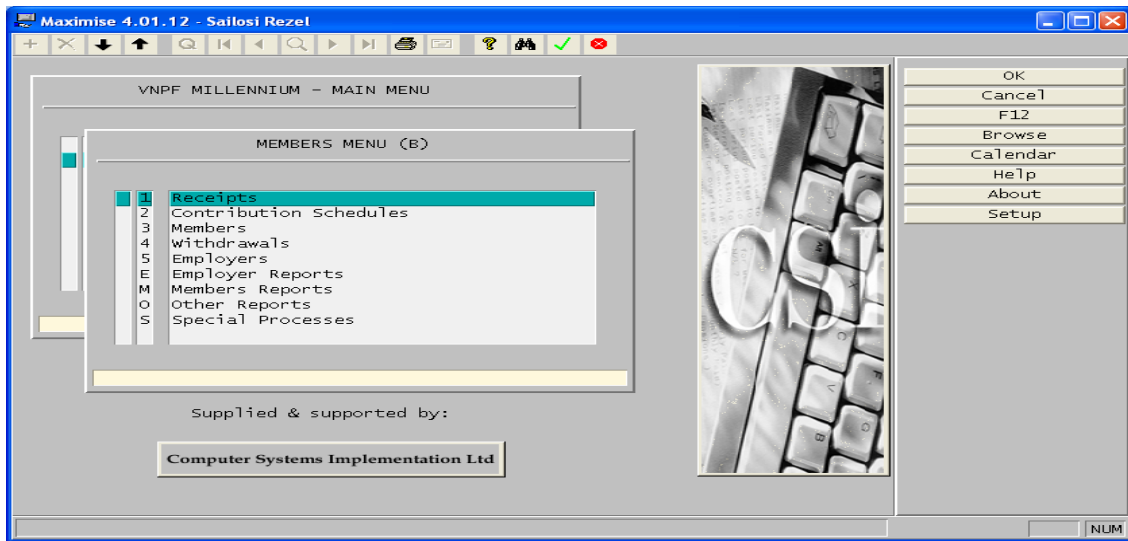


Figure 18.15 Members menu B3 screen

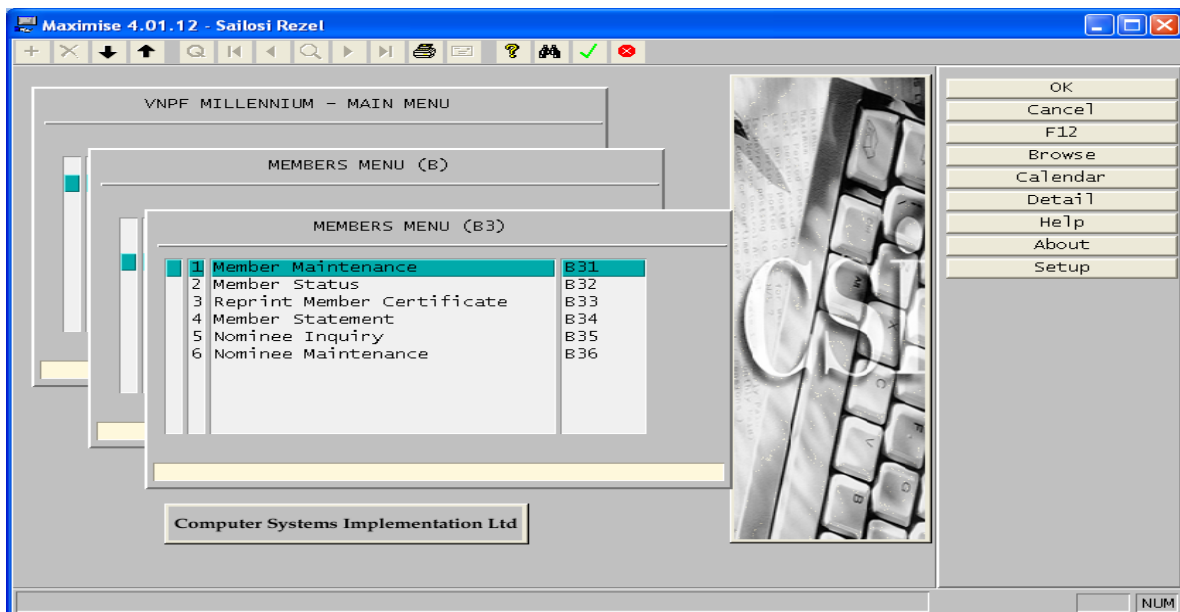
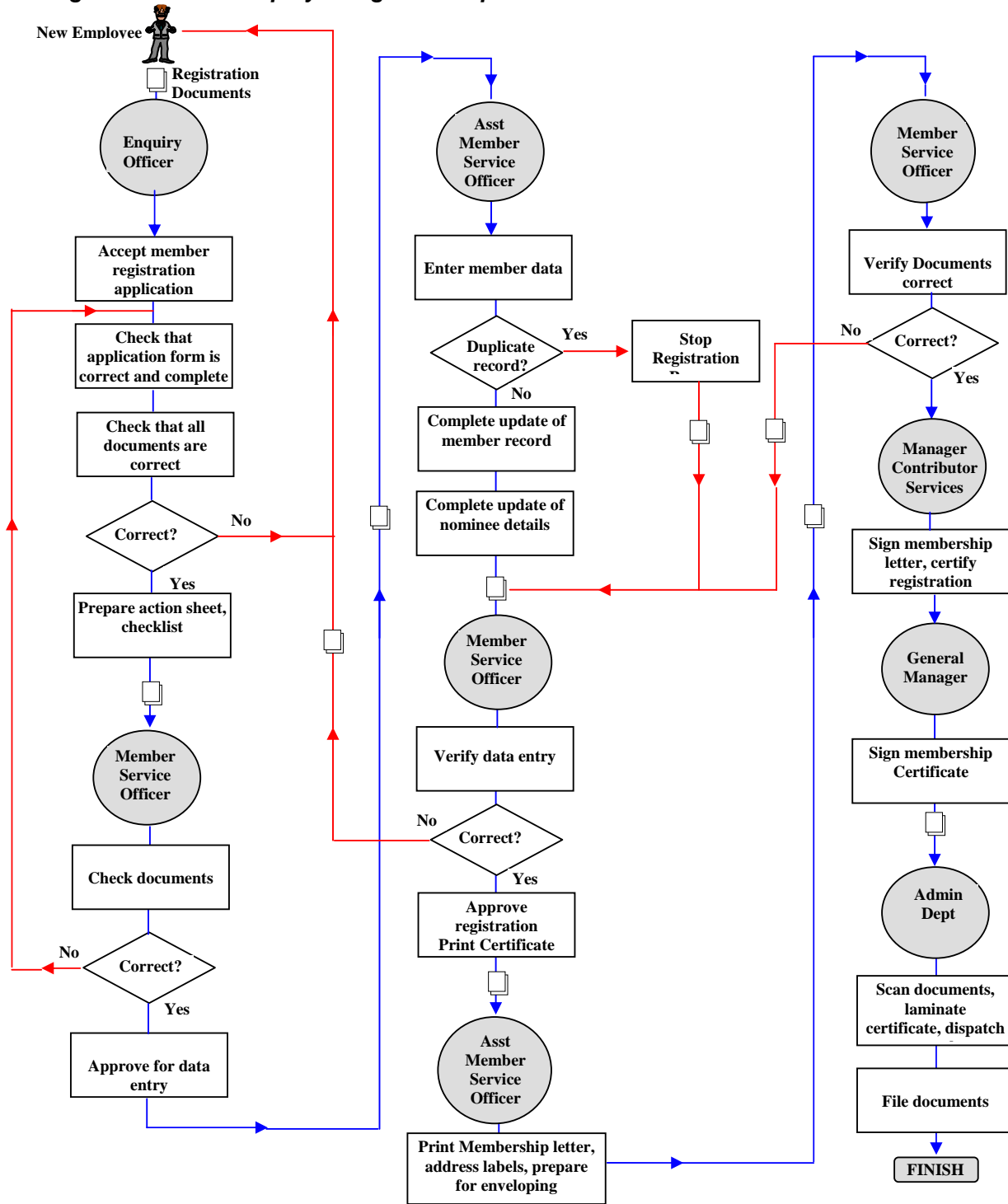


Figure 18.16 Employee registration process



18.5 Contributions processing

On the first week of each month, pre-printed contributions schedules are generated by the Senior Verification officer through the Maximise computer system for delivery to each employer.

The schedules contain the employer number, employer details, the contributions month, and

the most recent contribution details of each employee. This process involves the printing of a list of the employers for whom the schedules are produced, the sorting of the schedules into the same order as the last, stapling the individual schedules together, the enveloping, and printing and attaching of sticky labels for posting.

Figure 18.17 Contribution remittances sheet

Vanuatu National Fund
P.O.Box 420, Port Vila, Vanuatu - Telephone:23808

FORM E2

CONTRIBUTIONS REMITTANCE FOR THE PERIOD Jul-2005
VERSEMENT DES COTISATIONS POUR LA PERIODE FINIE Jul-2005
Note : Payment must reach VNPF, PO Box 420, Vila by 31-08-2005
Le paiement doit parvenir a la CNPF, B.P.420, Vila, au plus tard un mois a compter de cette date.

Employer Registration Number 105256
Numero d'enregistrement de l'employeur

Chief Executive Officer
Employer Name / Nom THE INDEPENDENT FOUNDATION
Address / Adresse P.O BOX 1555PORT VILA

Tel No. 22200 / FAX 27999
Statement Releve

Contributions due for schedule	102983	VATU
Cotisations a percevoir		51,743
List any other schedules you are paying		-----

TOTAL PAYMENT
PAIEMENT TOTAL

I certify that the entries on the contributions schedules which are forwarded herewith are correct and represent my/our full liability for contributions to the National Provident Fund for the period.
Je certifie que les entrees des listes des cotisations reportees ici sont correctes et representent malnotre pleine obligation pour les cotisations a la Caisse Natinale de Prevoyance de Vanuatu pour la periode.

Maintain a copy of this form for your records.
Gardez une copie de cet formulaire pour votre record.

A remittance for the total amount due is enclosed.
Ci-joint un versement pour le montant total du.

Signature _____ Date _____
Name(block letters)/Nom en majuscules Designation in company /Titre

Feasibility Studies

Figure 18.18 Schedule of contributions

VANUATU NATIONAL PROVIDENT FUND
SCHEDULE OF CONTRIBUTIONS FOR / LISTE DES COTISATIONS POUR LE Jul/2005

FORM E1

Chief Executive Officer
THE INDEPENDENT FOUNDATION
P.O BOX 1555
PORT VILA
JUDITH CASPER

Employer Number 105256 Schedule Number 102983 Page Number 1

Line	Member Number	Members Surname	First Name	Job Classification	New Job Classification	Salary	New Salary	Contribution	New Contribution	Date Employment Ended
Ligne No. du Membre	Nom du Membre	Prenom	Profession	Nuveau Profession	Salaire	Nuveau Salaire	Cotisation	Nuveau cotisation		
1	154252	MAKIN	ROBERT	GENERAL MANAGERS		200,000		16,000		
2	326116	TIONA	GRATIEN	WRITERS AND CREATIVE ARTISTS		70,000		5,600		
3	345678	SIMON	KATHRINE	OTHER OFFICE CLERKS		42,500		3,400		
4	368654	MELTECOIN	AGUE ARISTIDE	WRITERS AND CREATIVE ARTISTS		0		0		
5	417279	N.ATNELO	MARK	WRITERS AND CREATIVE ARTISTS		80,000		6,400		
6	430884	ANTHONY	HUGH LIGO	OTHER OFFICE CLERKS		75,000		6,000		
7	1064757	FERION	ALAIN	WRITERS AND CREATIVE ARTISTS		179,282		14,343		
						646,782		51,743		

The list and the schedules are passed to the Administration Department for checking and delivery to the employers – the whole process takes about one to two weeks.

The employer makes any required changes to the sheet (eg new employees, terminated employees, changes in individual salary/contribution), and submits the schedule with the contribution payment to the VNPF office for verification and receipting of the payment.

The payments and the correct schedules must be submitted by the last day of the month following the month in which the salary/wages were payable.

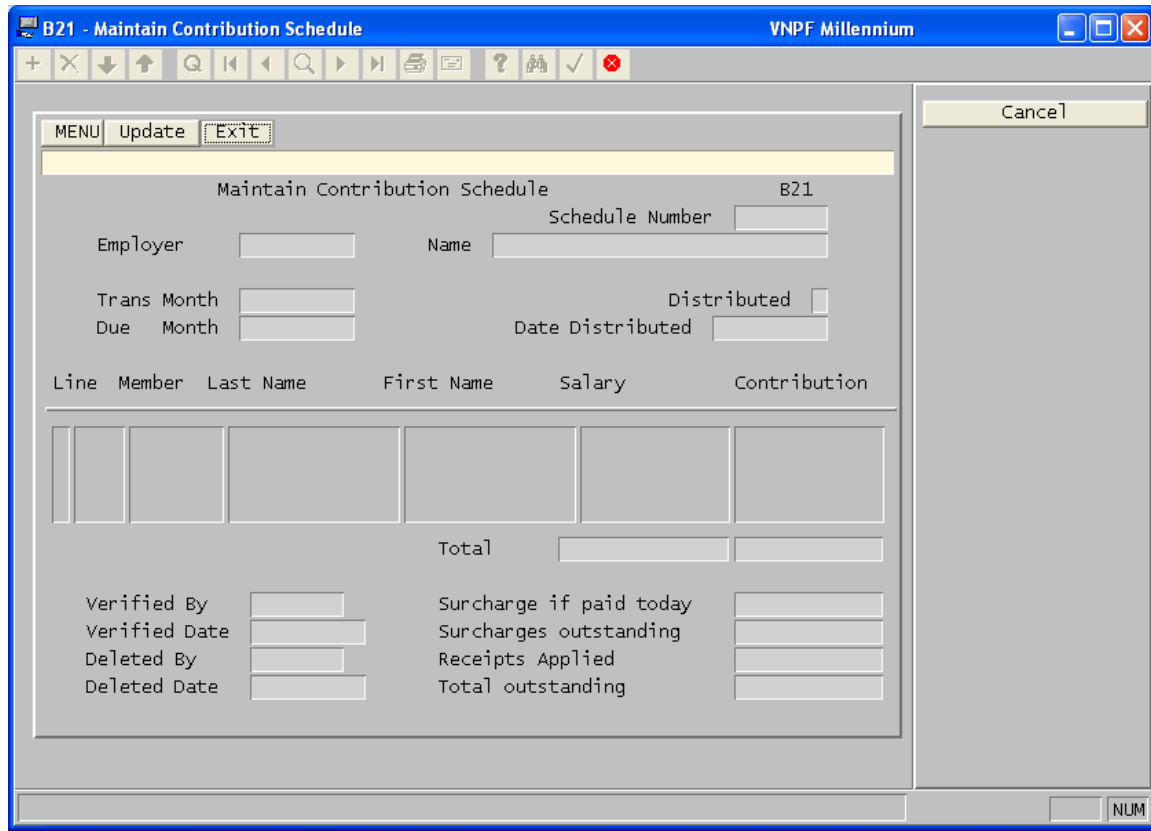
The schedules are lodged with the verification officer, who verifies the schedule, checking:

- the employer name, the month, and the schedule number;

- the contribution and cheque/payment amounts are correct;
- the membership numbers and names are correct;
- schedule total amount against the cheque amount;
- after calling up the previous contribution schedule for that employer to the screen (Menu B21) using the schedule number, the verification officer checks the details on the schedule against the details on the screen (employer name, number, contributions month, schedule number etc).

If there are any errors or omissions, the schedules are returned to the employer for correction and payment is not accepted. The corrections must be made and the schedule/payment re-submitted by the due date, otherwise the penalty surcharge of 5% for each month after the due date will be applied.

Figure 18.19 Contribution schedule (Menu B16)



Where the details are correct, the Verification Officer updates the employer schedules according to what changes have been made to

the pre-printed schedule – new members can be added, members can be terminated (by setting the salary/contribution amounts to zero), and

Feasibility Studies

changes can be applied to the salary and contribution amounts. The contribution calculations are automatically checked by the system, and visually checked by the Verification Officer.

The cheque is passed to the cashier, who calls up the Receipts screen (Menu B11) who generates a computer produced receipt, which is presented to the employer.

The updating of the schedule is completed and the schedule signed, dated and stamped “Verified” before passing it to the cashier.

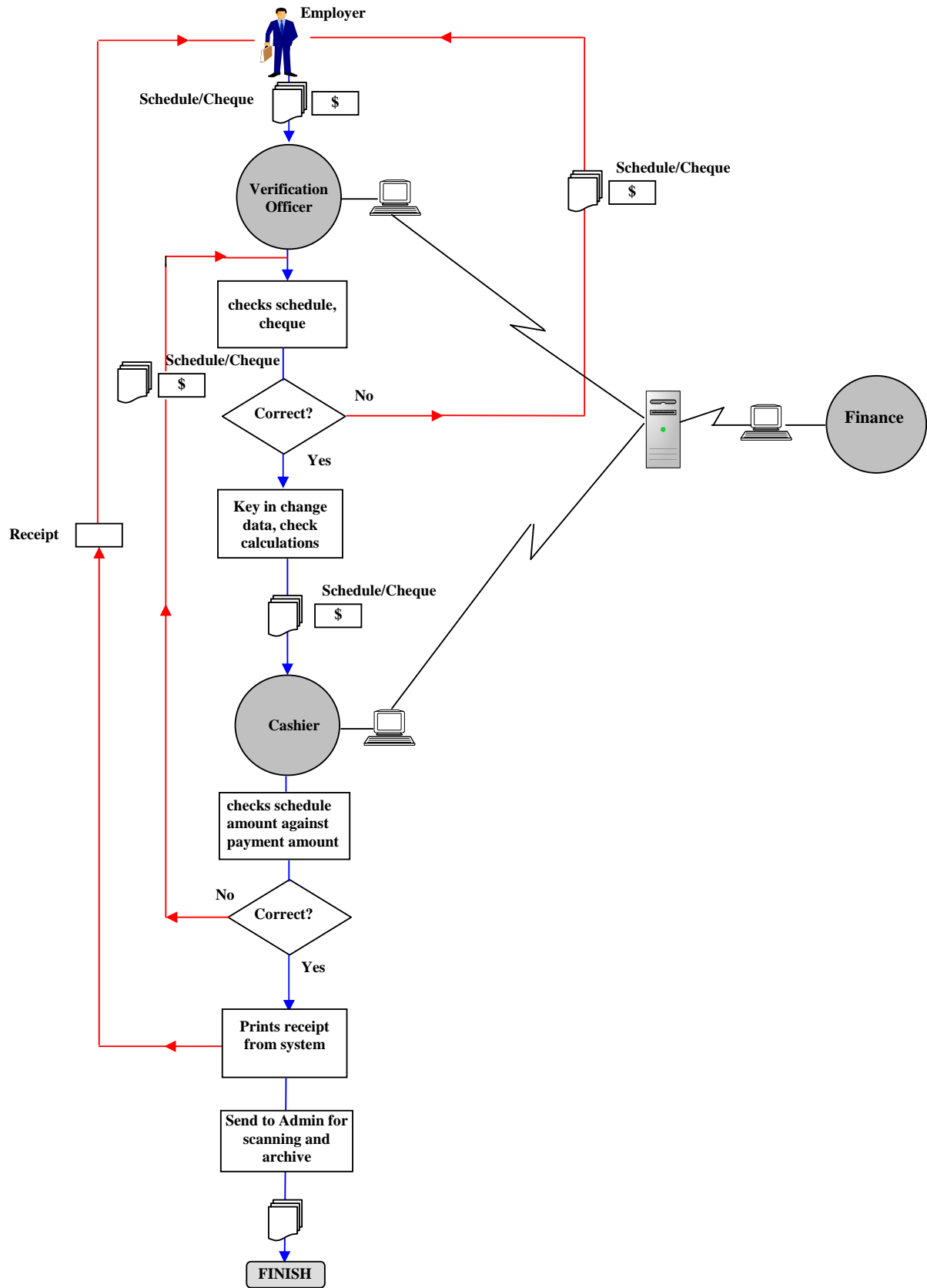
The cashier checks the payment amount against the verified schedule, and if there are no errors, 2 copies of a receipt are generated from the system. One copy is signed by the cashier and handed to the employer; the second copy is signed by the employer and retained by the cashier.

The schedules are retained by the cashier until collected by the Administration Department to be scanned and filed away in the archives room.

Figure 18.20 Receipt entry screen

The screenshot shows a software window titled "B11 - Receipt Entry" from the "VNPf Millennium" system. The window has a menu bar with "Receipt", "Contributions", "Other", and "Exit". Below the menu is a yellow header "Add Contribution Receipt Details". The main area contains various input fields: "Contribution Receipts" (with "B11" next to it), "Receipt Number", "Branch Receipt Number", "Employer Num", "Bank Account", "Payment Type", "Date Received", "Name", "Year", "Period", "Jour Num", "Posted" (checkbox), "Cheque Total", "Cash Total", "Receipt Total", "Entered By", and "Enter Date". At the bottom, there is a table for "Cheque Details" with columns: "Cheq Date", "Cheq Num", "Drawer", "Bank Name", "Amt", and "Can". A "Cancel" button is on the right side, and a "NUM" button is at the bottom right.

Figure 18.21 Contributions schedule processing



18.6 Electronic schedule processing

Where employers submit their contributions schedules on diskette or by e-mail (in the case of e-mail, the schedule is copied to a diskette), the receipt of the diskette is recorded in the Verification Register, and then the file is opened and checked for the accuracy and completeness of the data (i.e. correct employer, schedule number, month, contribution calculations correct etc.)

The Verification Officer then converts the data into the required format for the application system (removes headings, special characters etc) and saves the schedule onto the hard drive using the schedule number as the file name. The Verification Officer then uses the application

system to process the electronic schedule and print out an exception report. If all details are correct and the total amount is equal to the cheque amount, the contribution schedule is verified and the cheque is passed back to the cashier for receipting.

Other duties of the Employer Services Section include:

- the responding to telephone enquiries
- the generation of surcharges to employers for late payment of contributions
- responding to complaints (eg complaints about the application of penalties etc)
- responding to letters (requests for information, change of details etc).

Other activities provided by the application system for use by the Employer Services Section are shown on the following screens:

Figure 18.22 *Employer services main menu*

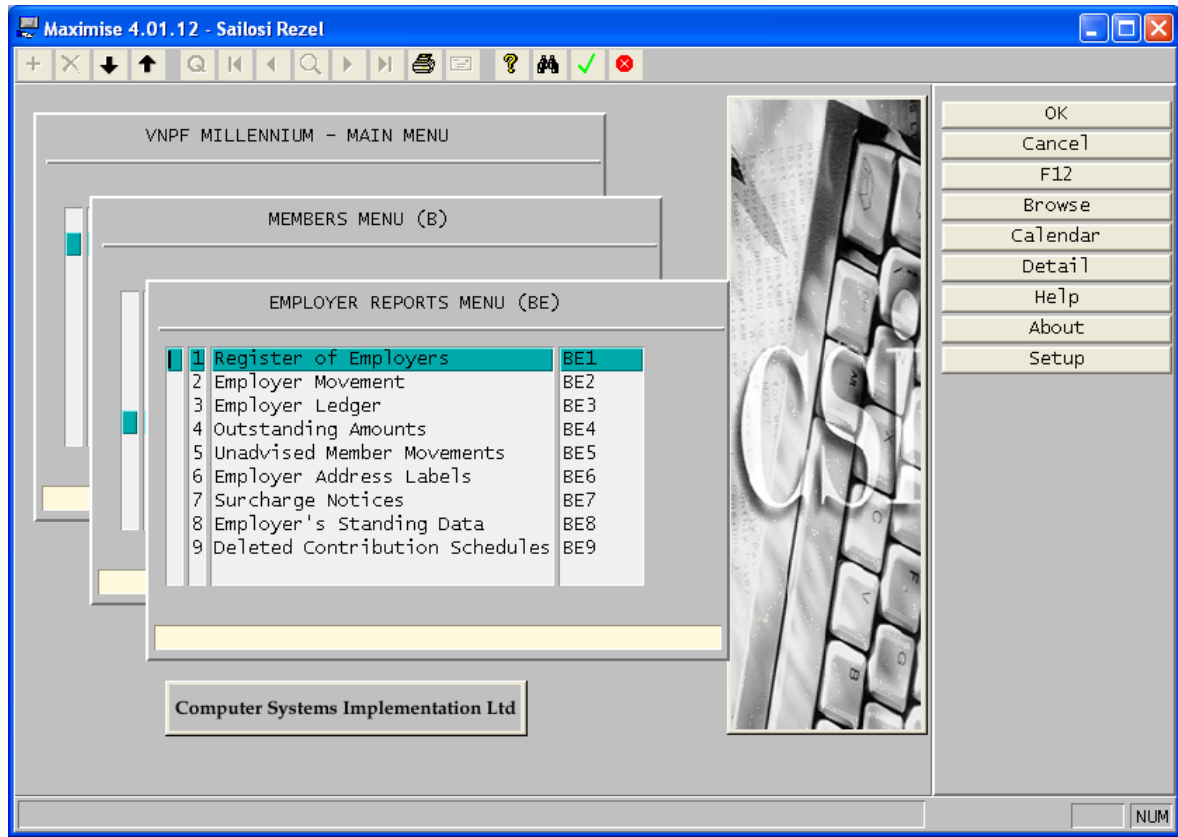
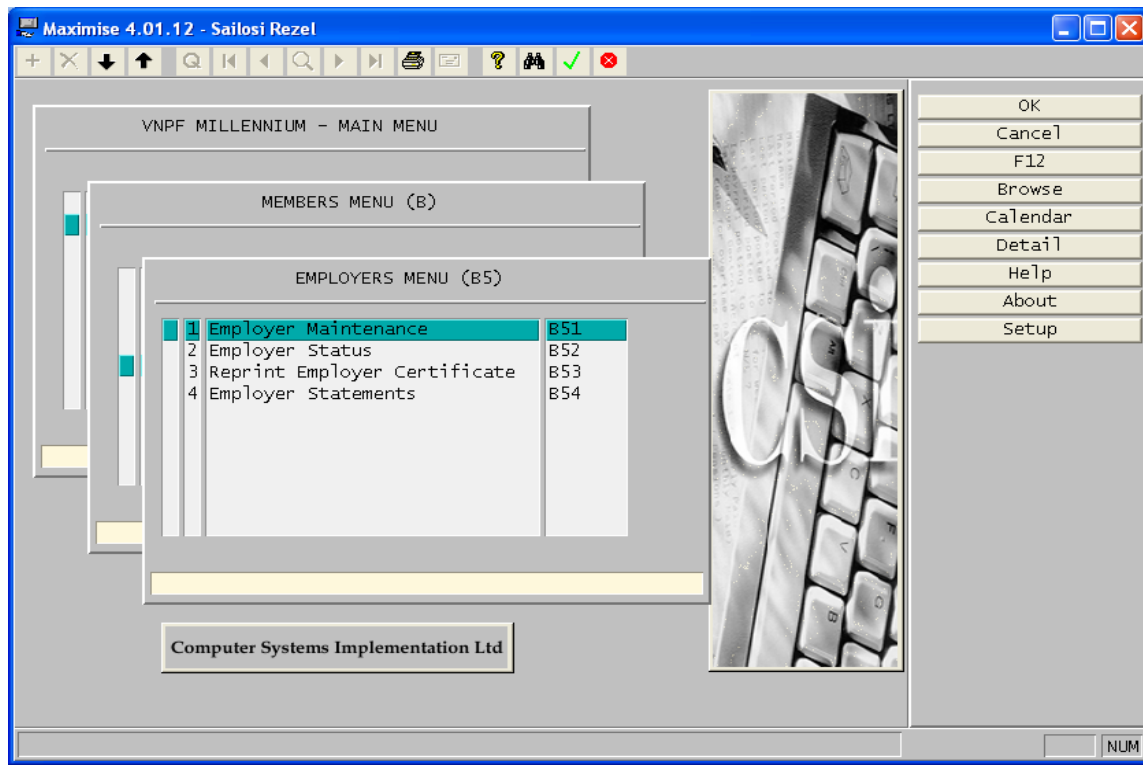


Figure 18.23 *Employer services menu*



18.7 Member withdrawals

There are four grounds for withdrawal of members' funds:

- retirement (age 55 years or above);
- permanent migration to another country;
- permanent incapacity preventing further employment;
- death of the member.


The operational workflow is the same for each category.

The claimant completes the relevant withdrawal application form and attaches a certified copy of the required documentation (driver's licence/passport, birth, death or medical certificate, evidence of permanent migration etc), and lodges it with the Enquiry Officer at the VNPF office.

Figure 18.24 Membership withdrawal form

APPLICATION FORM FOR WITHDRAWAL OF MEMBER'S CREDIT / FORMULAIRE POUR RETRAIT D'ÉPARGNE / AFLIKESIN FOM BLONG KAREMAOT MANI BLONG YU

V.N.P.F. NUMBER Claim No.

 Vanuatu National Provident Fund Caisse Nationale de Prévoyance de Vanuatu
Vanuatu Nasonal Providen Fand

Over 55 years / Plus de 55 ans / Olgeta we oli kasem 55 yia finis

1. First Name / Prénom / Fes Nem Middle Name / Deuxième Nom / Medel Nem Last name / Nom de famille / Famili nem

2. Your current postal address / Votre boîte postale actuelle / Adres blong yu we yu usum naola Tel. No. / N° de tél

3. Date of Birth / Date de Naissance / Deit we yu bon

Please attach evidence of birth, eg. Birth certificate, Driver's license or passport. / Veuillez joindre une preuve de votre naissance : Acte de naissance, Permis de conduire ou passeport. / Pli's putum pruv blong bith blong yu olsem : Bith setifiket, driver's laesens o paspot.

4. METHOD OF PAYMENT (Tick one box) / MODE DE PAIEMENT (Cochez une case) / WAY BLONG KAREMAOT MANI (Jusum wan box)

NB : Applicant should provide an identification such as passport and driver's license or passport. If you do not have an identity, please come with a responsible person known to you to confirm that you are the rightful person before your cheque could be released. / Le demandeur doit présenter une pièce d'identité tel qu'un passeport ou un permis de conduire avant que le chèque ne soit émis. Si vous ne possédez pas de pièce d'identité, veuillez vous présenter avec une personne de votre entourage qui pourra confirmer votre identité, afin que le chèque puisse être émis. / Man o woman we istap aplee imes kivim wan identifikesen olsem paspot o driver's laesens bifo jek isave ko long hem. Sapos yu noget identifi, plis kem wilem wan responsibol man o woman we yu seve gud blong konfemem se yu yu strot man o woman bifo jek isave ko long yu.

By cheque to be collected at VNPF Office / Par chèque, non négociable (à récupérer au bureau de la CNPV) / Wilem jek blong kolektem long VNPF Ofs (Not Negotiable).

By cheque, open for cash - To be collected at VNPF Counter / Par chèque, encaissable en espèces (à récupérer au guichet de la CNPV) / Wilem jek, we i open blong save tekem kas mani - Yu mas pikimup jek ya long VNPF kaontia.

Telegraphic transfer / Transfer télégraphique / Telegraphic transfes.

Bank Draft / Chèque de banque

To be deposited into account / Virement dans le compte / Deposil long akaon.

Current Address / Adresse actuelle / Adres blong yu

Account Name / Nom du détenteur du compte / Nem blong akaon
Account Number / Numéro du Compte / Akaon namba

Name and Address of Bank / Nom et Adresse de la Banque / Nem mo adres blong Bank:

Currency / Devise / Karensi For Foreign remittance only / Seulement pour les versements à l'étranger / Blong ovasi mani nomo

5. Are you still employed? / Êtes-vous encore en activité ? / Yu stap wok yet ? Yes / Oui No / Non / Nomo

If not employed, what was the last month and year of your employment? / Si vous ne travaillez plus, quel a été votre dernier mois et l'année d'emploi ?
Sapos yu nomo wok, wilem las manis mo yia nao yu stap wok ?

6. Declaration by Applicant / Déclaration du Demandeur / Dekleresen blong memba we i aplee

I hereby accordingly claim payment of the amount standing to my credit with VNPF. The information I have given in this application is true and correct to the best of my knowledge and belief.

Je demande par la présente le remboursement de mon épargne. J'atteste que les renseignements fournis sur ce formulaire sont exactes.

Mi stap naola diemem ol palmen blong ol mani we istap long nem blong mi long VNPF. Ol infomesen we mi kivim long aplikesen fom ia heem tru mo strot long gudfala tingting mo beif blong mi.

Signature/Saen Date/Deit Left thumbprint / Empreinte du pouce gauche / Mak blong left bikfala fnga

7. Declaration by Witness / Déclaration du Témoin / Dekleresen blong Witness

I hereby declare that the applicant has signed this form and impressed his/her left thumbprint in my presence.

Je déclare sur l'honneur que le demandeur a signé et apposé l'empreinte de son pouce gauche sur cette demande en ma présence.

Mi diklerem se man o woman ya we istap aplee i saen long fom ya mo hemi putum mak blong left bikfala fnga blong hem long taem mi stap.

Signature/Saen Print Name / Nom (en lettres capitales) / Raetain nem Date/Deit

The Enquiry Officer checks that the application form is complete and correct, that all necessary documents are attached, and if correct takes the members thumbprint and accepts the application. The action sheet and checklist are signed and attached (these are updated by the relevant officer at each stage of the process), and the application is passed to the Member

Services Officer, who completes a second examination of the form and attachments before passing it to the Assistant Member Services Officer for data entry. The Assistant Member Services Officer calls up the relevant withdrawal screen and updates the record with the application data, with the status of “received”.

Figure 18.25 *Withdrawal screen*

The documents are then passed back to the Member Services Officer, who calls the withdrawal record to the screen and checks the data entered against the documents. The documents are then passed to the Manager Contributor Services who also calls up the withdrawal record to the screen, verifies the entered data against the documents, and approves the withdrawal by changing the status

to “claim”. If the claim is not approved, the status is changed to “decline”.

The documents are then passed back to the Member Services Officer who calls up the payment calculation screen using the payment number and checks the computer calculations, (including the Special Death Benefit in the case of death of the member):

Figure 18.26 *Withdrawal payment screen*

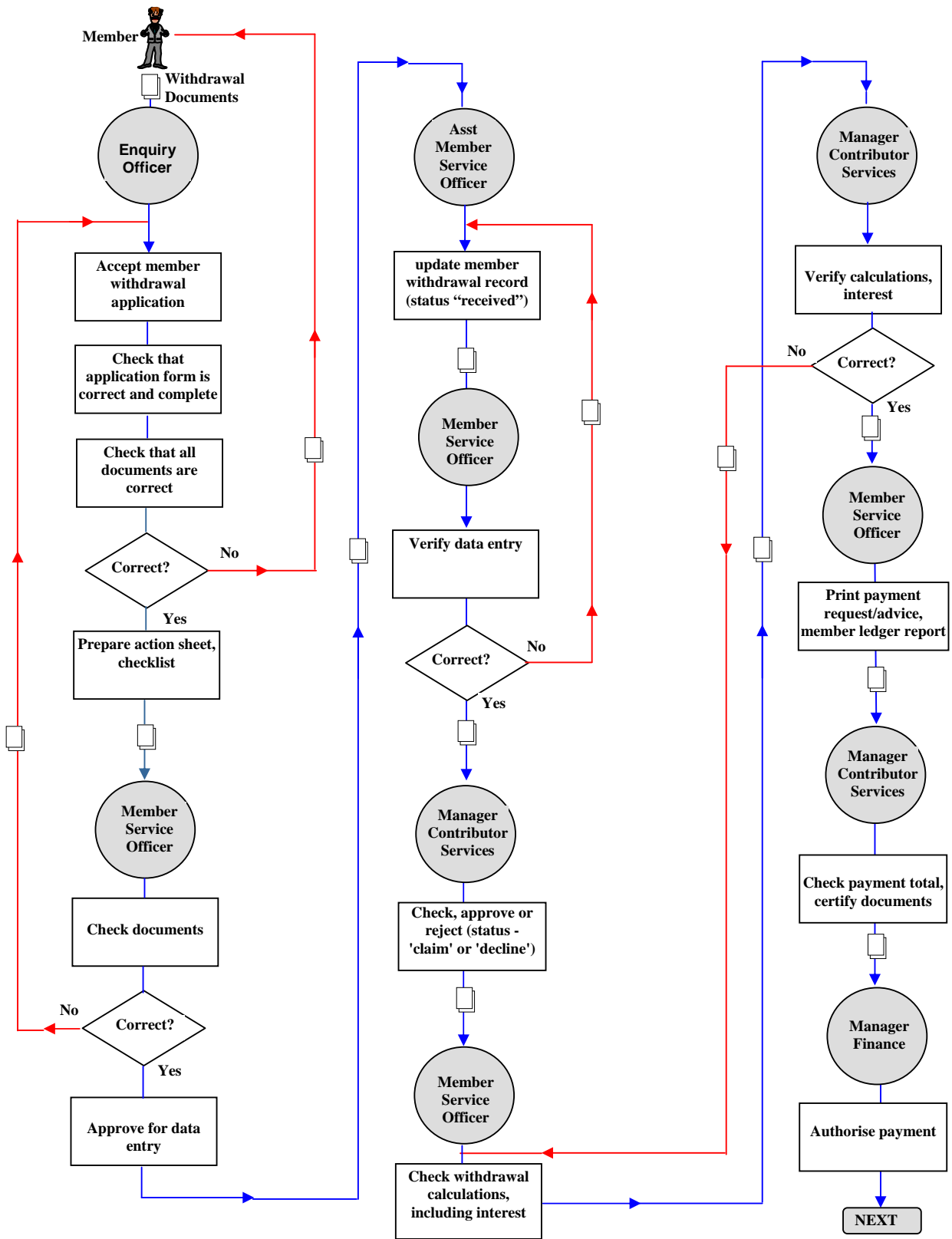
The documents are returned to the Manager Contributor Services for final checking and authorization of the calculated member balance plus interest, before being returned to the Member Services Officer for the printing of the withdrawal payment request, the payment advice and the Member Ledger Report. These documents are checked, certified and signed by the Manager Contributor Services (and by the DGM or GM where the amount exceeds VUV 500,000) and forwarded to the Manager Finance for authorisation and then to the Payment Finance Officer for the preparation of the

payment (cheque, direct credit, bank draft or telegraphic transfer).

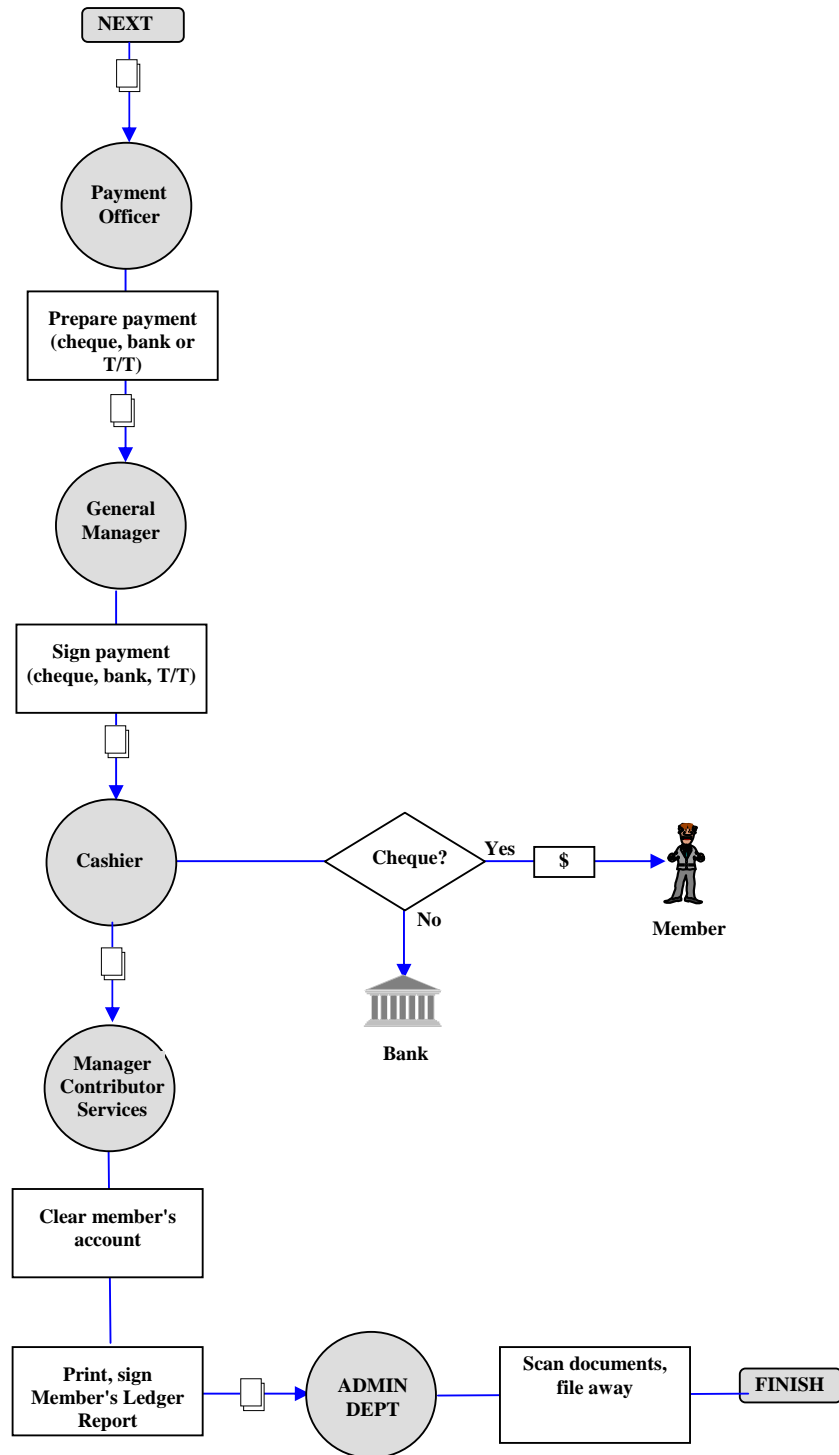
The documents are then passed to the GM for final signature, and then passed to the cashier for payment to the member, or if requested is directly deposited into the member's bank account.

After payment has been effected, the member's balance is cleared, the Members Ledger Report printed and signed by the Manager Contributor Services, and the file referred to Administration for scanning and filing.

Figure 18.27 Member withdrawal processing



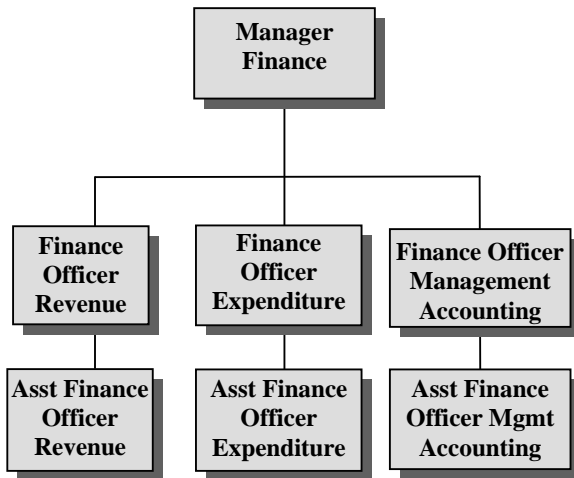
Member withdrawal processing (continued)



18.8 Finance department

The Finance Department has a staff of 7, responsible for the management of revenue, expenditure, and management Accounting, organised as follows:

Figure 18.28 Finance department organisation



As can be seen from the above diagram, the Finance Department is responsible for the financial reconciliation of all the accounts of the VNPF. These reconciliations are undertaken electronically using the Maximise accounting system, which records all the financial records on the system and which are available to the Finance Officers, and produces the required financial reports for checking by the Finance Officers.

The Finance Department is required to produce monthly financial reports of income and expenditure for the Executive and the Board, and is also responsible for the compilation of the annual budget. Each Department prepares its own budget submission which is passed to the Finance Department for review and composition of the VNPF budget.

The Finance Department also monitors the Departmental expenditure against allocation.

The Revenue Section undertakes a daily and weekly reconciliation of all contributions paid by employers. The reconciliations cover the balancing of:

- all receipts held by the cashier (cash, cheques) at the end of the day;

- the contributions credited to employer accounts and subsequently credited to member accounts;
- the computer generated receipts issued by the cashier;
- the contributions credited to the VNPF bank accounts (direct deposits, telegraphic transfers etc);
- all other payments paid to the VNPF (e.g. income from investments, rent etc).

The Expenditure Section has responsibility for checking and reconciling all payments to be made by the VNPF, including:

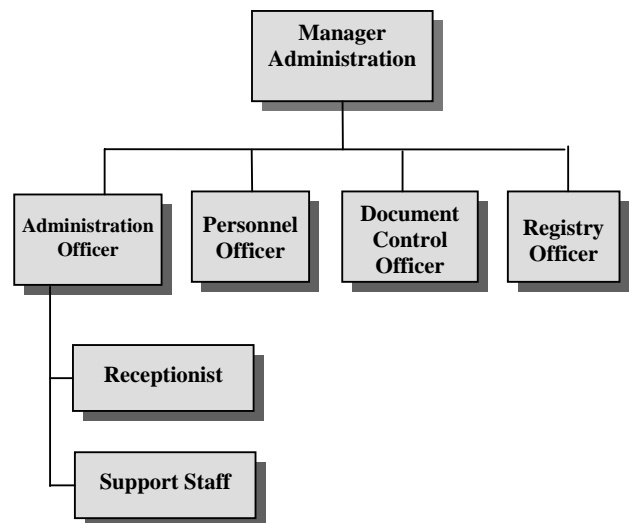
- member withdrawals (cheque, direct credits, telegraphic transfers);
- staff salaries;
- miscellaneous accounts (electricity, water, purchase of office and IT equipment, etc) investments.

The Management Accounting section is responsible for the overall reconciliation of the VNPF accounts, the monitoring of all income and expenditure, and the preparation of the required monthly and annual reports.

18.9 Administration department

The Administration Department's main responsibilities include the maintenance of the personnel system, the provision of office services, property management, and the scanning of documents into the Document Management System. The Department has a staff of 8, which includes 2 support staff (driver, cleaner), organised as follows:

Figure 18.29 Administration department



Feasibility Studies

The Administration Officer is responsible for the provision of office services, including:

- the purchase of office supplies;
- all mail and postage;
- management of petty cash;
- property maintenance;
- motor vehicle management;
- telecommunications.

The Personnel Officer is responsible for the maintenance of the personnel records of all VNPF staff, including attendance, leave, higher duties, performance reports etc, and works in conjunction with the Finance Officer in charge of the staff payroll system. This officer also has responsibility for staff recruitment.

The Document Control Officer is responsible for the scanning of all documents into the Document Control System. This involves the scanning of existing paper file documents in addition to all new documents.

The Registry Office has responsibility for the management of the storage and movement of the VNPF paper files, and the archival system.

In addition to the normal managerial responsibilities, the Manager Administration also provides the secretariat services to the Board of Directors.

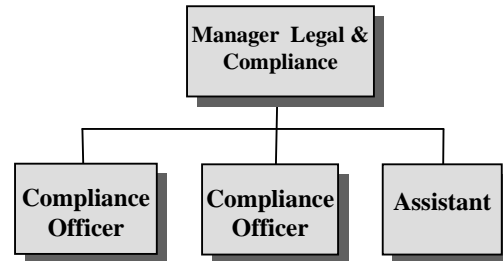
18.10 Compliance department

The main objective of the Compliance Department is to ensure that eligible employers comply with the law regarding the payment of contributions to the VNPF on behalf of their employees. This involves:

- investigation of employers who have not registered with the VNPF;
- visits to those employers who are registered but are in arrears with their contributions payments;
- follow-up of employers who have been late in paying their contributions and where surcharges have been applied;
- regular visits to contributing employers and inspection of their payroll records;
- follow-up of complaints by employees relating to incorrect or non payment of contributions;
- the gathering of evidence and preparation of charges for prosecution of employers.

The Compliance Department has 3 permanent staff – the Manager Legal and Compliance, and 2 Compliance Officers – and one casual staff member:

Figure 18.30 **Compliance department**



The Compliance Department needs to deal with more than 2000 registered employers, plus an unknown number of as yet unregistered employers. The majority of these employers are in Port Vila, however there are an unknown number in the provinces and in surrounding islands.

Employers with one or more employees earning more than 3000vt per month are required to register and pay contributions on behalf of those employees.

There are a number of methods used by the Compliance officers to choose which employers to investigate:

- in the case of late payment by employers, a surcharge of 5% of the contribution amount is applicable; surcharge notifications are prepared by the Contributor Services Departments and lists of these employers are provided to the Compliance Department for follow-up;
- lists of employers who have not paid contributions are also prepared by the Contributor Services Department and passed to the Compliance Department for follow-up;
- many complaints are received from employees advising of employers who are not complying with their obligations for contributions payment;
- lists of employers who have applied for annual renewal of their business licences are available from the Financial Services Commission – these are checked against the VNPF employer database, thus

- identifying non-registered employers who may be non-compliant;
- street-by-street visitation program – using this method the compliance officers cover small business establishments in Port Vila by "dropping in" to businesses on a street by street basis to investigate whether the business is or should be registered and paying contributions;
- acting on information provided by the Chamber of Commerce.

From the above sources of information the Compliance Department estimates that there are approximately 800 employers who are failing to comply with their obligation to pay contributions.

Within VNPF there has been much focus on the formal prosecution of non-compliant employers. The Compliance Department gathers evidence for prosecution during its on-site investigations and examination of the employers' payroll records, and assists with the drafting of charges. The cases are referred to the Public Prosecutor's Officer, who prosecutes on behalf of the VNPF.

There are currently 17 cases that have been referred for prosecution. Already a small number of employers have come forward to pay their contributions since it has become known that cases have been referred for prosecution; VNPF feels that if the prosecutions are successful many more non-compliant employers will meet their contribution obligations.

However with only 2 Compliance Officers to carry out inspections, the targets set for the Compliance Department are unable to be met. The officers can carry out roughly 15 – 20 inspections per week, say 80 per month, or less than 1000 inspections per year, when there are more than 2000 employers that should be inspected each year. In addition to this there are roughly 3-4 complaints from employees received each week, say 200 more requiring investigation, plus an estimated 800 unregistered employers identified from the lists provided by the Financial Services Commission, plus an unknown number of unlicensed businesses.

Considering the amount of work involved in gathering evidence for prosecution and the drafting of charges, and the follow-up of surcharge and non-payment cases, it is obvious

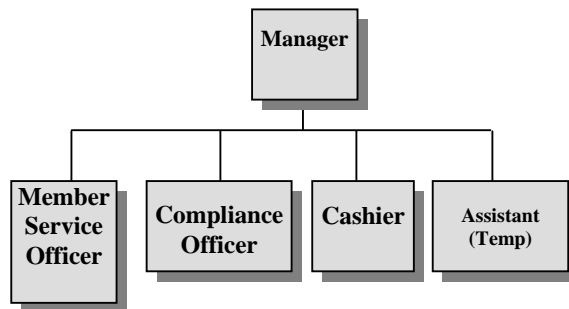
that the Compliance Department does not have sufficient capacity to cope with the current workload effectively.

Given that it is standard practice for each employer to be inspected annually, if the prosecution results are positive and many more employers register and pay contributions, then the number requiring annual inspections will increase.

18.11 Santo branch office

Santo Island (Espiritu Santo) is located about 150 kms north of Port Vila. The Santo Branch Office was opened in 1995, and currently has a staff of 4, plus one temporary employee.

Figure 18.31 Santo office organisation



Online access to the computer system in Port Vila was installed in the office in May this year, so it will take time before full advantage of the system can be realised. The office receives and checks applications for employer and employee registration, change of details, contributions schedules and payments, and member withdrawal applications. Receipt of all documents is recorded by the Branch Office, and all documents are forwarded on to the HQ in Port Vila for processing.

The main advantages achieved from the online access so far are the ability to print out locally member statements of contributions on demand, the ability to have immediate access to member and employer records to provide accurate response to enquiries, and the ability to have monthly reports extracted directly by HQ instead of being prepared at Santo and dispatched to Port Vila by mail.

Feasibility Studies

As is common in most small branch offices, duties are regularly shared across the staff, depending on demand and availability.

18.11.1 Compliance

A major task confronting the office is in the area of compliance. It is estimated that there are between 400-500 eligible employers in the Santo region, 338 of whom are registered. Inspections must be carried out by two people, giving regard to the fact that any evidence gathered of non-compliance must be witnessed, which means that the Compliance Officer can only carry out inspections when the Manager is available to accompany him.

Inspections are scheduled for 3 days per week, which enable about 270 inspections per year. In addition to the regular inspections, the Compliance Officer receives complaints from around 120 members per year about employer non-compliance, and also must visit employers with surcharge notifications. There is also difficulty in servicing remote employers – including those on islands with irregular access and mail deliveries. To its credit the Office currently has 6 employers awaiting prosecution for non-compliance.

There are some problems with the computer systems that result in complaints from employers:

- some employees missing from the pre-printed schedules;
- sometimes schedules are not printed for individual employers;
- demand notices being sent to employers after they had paid their contributions.

(These problems are currently being addressed at HQ).

In addition to his compliance duties, the Compliance Officer provides backup to the Member Services Officer, is responsible for outward mails, filing, the updating of manual ledger cards, telephone enquiries, and is the office driver.

There is a clear need for an additional resource to ensure the compliance demands are effectively met.

18.11.2 Member services

The duties of the Member Services Officer include:

- the receipt and checking of monthly contributions schedules;
- the receipt and checking of employer/employee registration applications;
- the receipt and checking of member withdrawal applications;
- receptionist/enquiry officer;
- preparation of banking documents;
- photocopying of incoming/outgoing mail
- preparation of monthly reports;
- balance of financial receipts against HQ financial reports;
- distribution of employer/employee registration certificates.

As the Branch Office does not yet have access to the scanned documents via the Documents Managements System, all documents sent to HQ need to be photocopied prior to despatch.

18.11.3 Cashier

The Cashier ensures that all payments received are correct and accurately recorded, and receipts issued. Payments include:

- monthly contributions;
- income from investments (rent, interest etc);
- payment of surcharges.

(Due to the office layout, payments are actually received and retained by the Member Services Officer, and receipts issued and records updated by the Cashier. Plans are underway to have the office refurbished to locate the Cashier in a more suitable position with the Member Services Officer).

At the end of day, the Cashier prints a list of payments received and recorded, which is balanced against the cash/cheques taken by the Member Services Officer.

The Cashier also assists the Member Services Officer with telephone and counter enquiries, and verification duties.

Other issues raised during the interview:

- the need for defined procedures for Santo staff;

- the lack of backup for the cashier;
- the possibility of the cashier assisting the Compliance Officer;
- difficulties in servicing the remote islands, especially where the pre-printed schedules are not delivered on time, or where the employer calculates his due payment and lodges it directly with the bank, but because of lack of postal services, the completed schedule is not received at the office before the due date. In this case the employer has paid the contribution on time, but surcharges may be applied because the system has not been updated (this problem is under consideration by HQ – one suggestion is that in these circumstances the cashier could notify HQ by e-mail not to issue the surcharge when it is apparent that the contribution has been paid by the due date).

It is expected that many of the current challenges experienced by the branch office staff in their service delivery to customers will be overcome when the office is in a position to take full advantage of the online access to the database; eg direct data entry to enable local processing rather than batching documents and awaiting delivery and return to and from HQ, direct access to the scanned documents etc.).

18.12 Information technology

18.12.1 Background

After it commenced in 1986, the VNPF initially used a very basic IT system for the recording of member contributions, designed and developed in-house, using DOS based systems that were very simplistic.

The programs had serious problems and there had been no reconciliation of member account records since 1987, and in 1999 the VNPF recognized the need for new IT systems to provide proper management tools for the effective management of the fund, and in 2000 each department within VNPF prepared user requirements specifications which were consolidated by the IT Manager and presented to the Tender Committee for the calling of bids for the development of the system.

A company domiciled in New Zealand, Computer Systems Implementation (CSI) was the successful tenderer. They proposed a basic

accounting software package (Maximize), subsequently modified to suit the specific needs of the VNPF by designing and developing a special module (Member) to meet the user requirements specifications. CSI was subsequently taken over by another company, Integral Technology Group (ITG).

ITG consultants came to Vanuatu to install the system, convert all the data records from the old system for use by the new system, trained all staff in the use of the system, and gave special technical and operational training to IT staff.

Basically the system provides for the pre-printing of contributions schedules during the first week of the month which are provided to the employers, who update them and return them to the VNPF office with their contribution payment (cheque, money order or postal order).

The lodged schedules are checked against the original pre-printed schedules, and any changes (new employees, terminated employees, changes to the individual salary/contribution) are recorded on the individual members' records, and employers' and members records are updated.

At the end of the day, the system reconciles the amounts recorded for employer contributions, the total amounts for which receipts have been issued, and the cash/cheques held by the cashier. After a balance has been struck between these amounts, the system debits the employer accounts and credits the individual member accounts.

Additional core functions for which the system also caters include:

- registration of new employers;
- registration of new members;
- change of details for both employers and members;
- the updating of nominee details;
- member withdrawals in the case of:
 - age (aged 55 years or more);
 - permanent migration to another country;
 - permanent incapacity preventing employment;
 - death of the member.
- management information reports;
- financial reports;
- statistics.

The application is maintained remotely by the developers, who have online access to the VNPF files via the Internet. When changes are requested by users, or problems are experienced, the IT Manager conducts the initial investigation, and then contacts the consultants, usually by e-mail, or as a last resort by phone. With online access the NZ consultants are able to examine the problem directly on the database in Vanuatu, apply fixes, and test the changes on the testing system, then implement the changes in the live system.

However users expressed dissatisfaction with the response of the NZ consultants to their requests for fixes to problems and requests for change, indicating that they had many outstanding requests that had yet to be addressed, and that many reminders were required to achieve a positive response.

In particular one serious problem in the Maximize system involving the unexplained disappearance of individual member records from contribution schedules has been occurring since 2001. A number of programming fixes had been applied, but each was unsuccessful and the problem is still unresolved. This problem has now expanded causing some employer pre-printed schedules not to be printed, which is causing major problems both for the employers concerned and the VNPF.

The NZ consultants also developed and implemented a Documents Management System for the NPF. The system provides online access to all documents scanned into the system, as well as online reports by category, date, status etc. The paper file records of each member are currently being scanned into the DMS system, which will allow the paper files to be removed for offsite storage. Incoming and outgoing mail is also scanned into the system, allowing immediate online access to all correspondence.

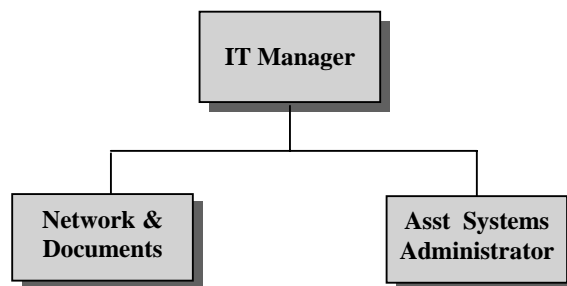
The systems are UNIX based using SQL programming language.

The Branch Office at Santo has an online connection to the main database, and is able to process its own employer and employee registrations, and the recording of contributions. Member withdrawals are processed in Vanuatu.

18.12.2 IT Department

The IT Department has a staff of 3 – the IT Manager (Systems Administrator), an Assistant Systems Administrator, and a Network Support Officer. The IT Manager has been with the VNPF for 4 years after completing his degree in Information Systems at university. The Assistant Systems Administrator and the Network Support Officer have had no formal training; they receive on-the job training from the IT Manager.

Figure 18.32 IT Department



The IT Manager has responsibility for:

- the investigation and follow-up of user reported problems with the main application system;
- requests for changes to the applications systems;
- liaison with the ITG consultants in NZ;
- the provision of system support and Help Desk services to users, responding to requests for assistance on problems with hardware, application programs, operating systems, communications, proprietary software packages etc;
- the maintenance of a number of locally written application programs (written using MS Access):
 - payroll system;
 - HRM system;
 - contribution monitoring system;
 - stationery records system;
 - surcharge tracking system;
 - contributions arrears system;
 - withdrawal application movement system;
 - enquiry control system;
 - activity tracking system;
 - bulk order system;
 - financial commitment system;
 - daily register system;
 - employer address label system;

- member address label system;
- non-contributing members system;
- non-compliance control system;
- non-registered business system;
- government statistics system;
- daily attendance system;
- telephone control system.
- requests from external organizations for statistics (individually tailored);
- maintenance of the communications network;
- computer security (control of access to the net, passwords etc);
- the VNPF website (developed by a consultant);
- basic computer skills training for users;
- on-the-job technical training for the IT staff;
- purchase of hardware and IT consumables;
- provide standby support for other departments after official working hours and during weekends;
- run annual statements for all members each year;
- run the year end rollover process in the main application system;
- the development of small systems for users (MS Access);
- the IT strategic plan.

He is also responsible for the day to day running of the operating systems, including:

- start-of-day processing;
- end-of-day processing;
- backup;
- maintenance of the IT assets register.

The Assistant Systems Administrator is undergoing training to enable him to provide future support and backup to the IT Manager in the systems administration activities.

In addition to his communications network responsibilities, the Network Support Officer is responsible for the maintenance of the Documents Management System.

18.12.3 Backup

Backup to tapes is undertaken daily, with the backup tapes stored onsite.

18.12.4 Change management

Responding to requests for change by users is a major task for the Systems Administrator. Requests for change to systems are generally communicated by e-mail from the originator, copied to the General Manager. A meeting is then arranged between the originator of the request, the GM and the Systems Administrator to examine the request, and it is either approved and prioritized, or denied.

If the request concerns the minor (MS Access) systems, the changes are made by the Systems Administrator. Where the changes relate to the main applications, the requests are forwarded to the NZ consultants by e-mail, who, if necessary respond for further details by e-mail.

18.12.5 Hardware

The VNPF is well equipped with an adequate supply of computer hardware to enable effective use of its computer systems, with the assets register showing the following hardware installed:

Vanuatu Office:

Servers (3): 1 x IBM
1 x Celeron
2 X Compaq

User PC's (35) 7 x CELERON
2 x IMB
5 x IBM
11 x DELL
3 x Pentium 4
1 x HP Pavilion

4 old PC's (unused) 2 x SUN
1 x CELERON
1 x ABOUND

Printers (19): 9 x HP Laserjet
4 x HP Deskjet
2 x Sharp AR
1 x Canon 660
1 x Epson LQ
1 x Toshiba

Scanners (3): 2 x Canon
6 x COMPAQ
1 x HP Scanjet 4300C

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Santo Office

Server (1): 1 x CELERON
User PC's (4): 3 x DELL
1 x IBM
Printers (2): 1 x Canon 560
1 x Toshiba Fax/Printer

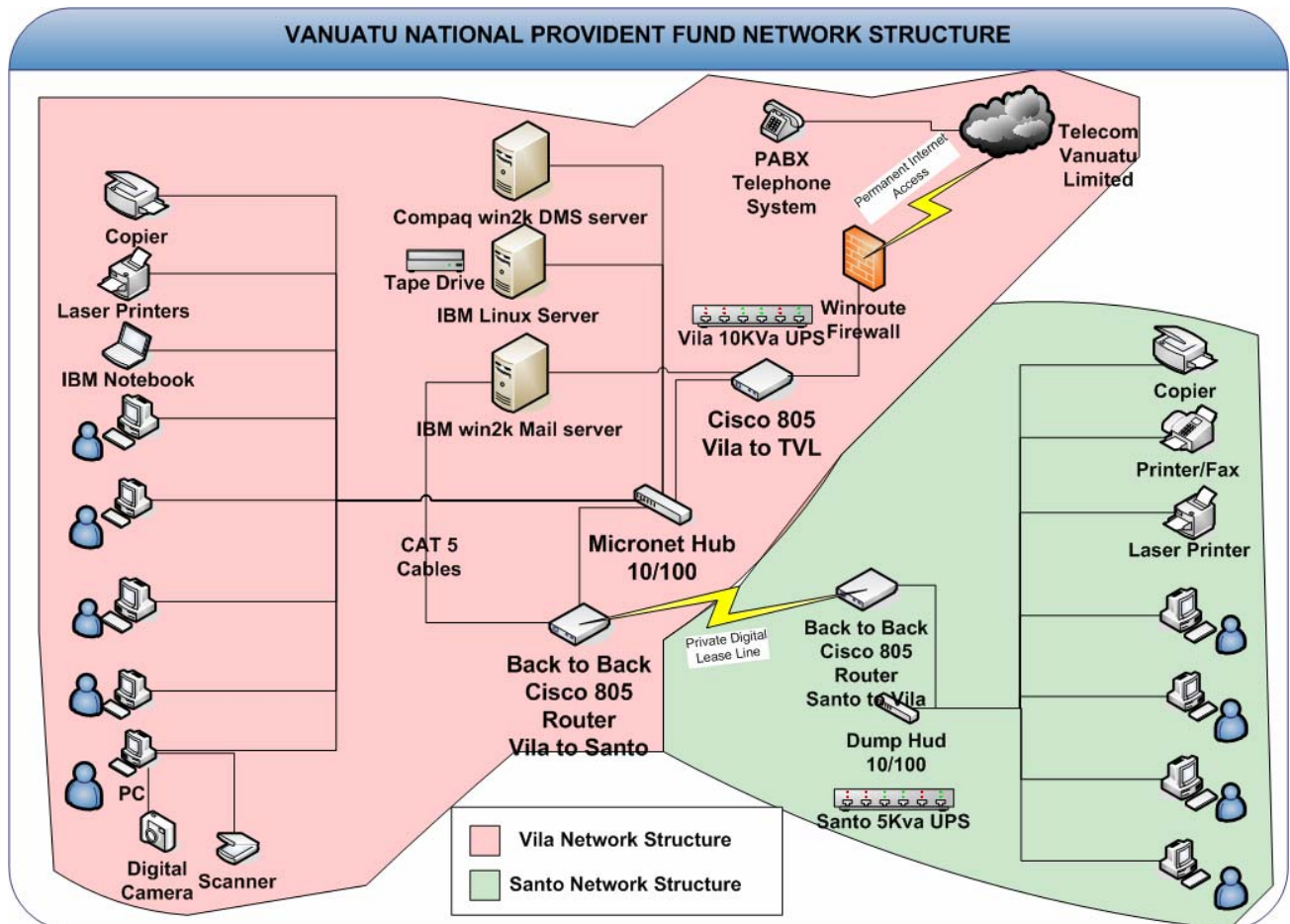
VNPF has also installed fingerprint scanning and matching software and hardware for use in its in-house personnel system, and is also evaluating the suitability of similar equipment for use in the member registration and withdrawal operations of its main systems.

Besides having online connection with ITG consultants in New Zealand, VNPF has had online connection to its Branch Office in Santo since April 2005. The online access has not yet been fully exploited, but the ability to print out member statements locally as well as the ability to access member and employer records to answer enquiries has much improved the service delivery capacity of the Santo staff.

It is anticipated that the future remote data entry possibilities at Santo will result in further significant efficiencies and effectiveness of customer service.

18.12.6 Communications network

Figure 18.33 Vanuatu network structure



18.13 Meetings with external organisations

Meetings were held with both the Vanuatu National Union of Labour and the Chamber of Commerce and Industry. Both organisations expressed the need for more information on the activities and investments of the VNPF, in formats that are interesting and easily understood by both members and employers.

(The VNPF currently schedules visits – one per month - to the larger employers to promote VNPF activities; it also includes a newsletter on VNPF activities in the annual statements sent to members).

The Trade Union representative spoke of concerns about lack of representation of private sector employees on the Board of Directors (both current member representatives are from public sector unions), and also that there should be more union delegates invited to attend the formal workshops conducted by ILO.

Other issues raised at the meeting with the Chamber of Commerce included:

- the need to co-operate with organisations like the Chamber of Commerce; their organisation was prepared to share information with the VNPF (eg the provision of a full list of employers);
- the growth of the business sector;
- the concern about the lack of compliance by employers;
- the unrealistic level of the monthly wage (3000 vt) above which contributions must be paid.

18.14 Pensions

Little can be offered in the way of advice on operations, IT and staffing until decisions have been taken as to what sort of pension scheme will be adopted – eg will contributions be pooled and pensions paid from a central fund, or simply a choice be allowed to an eligible member to take the withdrawal as a lump sum, full pension, or part lump sum/part pension, how the payment will be calculated etc.

However the following points can be made:

- the contributions collection process is already in place;
- it should only be the payment process that needs change, and that should not be a significant operational change; it would be

a change in the payment process, having an additional ongoing monthly process (direct credit to bank accounts – however payments to pensioners in remote areas require consideration);

- new procedures may need to be introduced to the Finance Department, depending on the policy decisions taken in regard to the funding of pension payments;
- one operational change would be the addition of a review process to ensure that the pension is still payable;
- the major changes would be changes to the computer system – payment processes, change to pensioner details (change of address, bank account etc), management reports, financial reports, statistical information etc.).

Of course an actuarial evaluation would be required for any consideration of the introduction of a pensions scheme.

18.15 Health insurance

Similar comments to those above relate to the introduction of a Health Insurance (HI) scheme; however the changes for Health Insurance would be much more significant than those for Pensions. Major decisions need to be taken as to what role is envisaged for the VNPF – whether the VNPF would simply be an agent to collect contributions which would be passed to another agency managing the HI scheme; or whether its role would involve more, such as:

- registration of members' dependents;
- issue of new and replacement HI ID cards;
- updating of member and dependents information (new dependents, children exceeding the eligible age, etc);
- registration of service providers;
- ongoing monitoring of the eligibility of members and their dependents;
- advising service providers when the member stops paying contributions;
- review of services and drugs;
- payments to service providers or reimbursement of medical claims;
- quality assurance;
- ongoing monitoring of contribution rates.

There are many policy decisions to be taken before the operational aspects can be considered. Depending on the degree of involvement, a new computer system may need to be developed.

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Again, an actuarial review would be essential as part of the decision making process.

18.16 Conclusions and recommendations

18.16.1 Operations

As mentioned previously, the VNPF runs a very tight operational system which is based on having accurate information in its database. All data, including contributions schedules, employer and employee registration applications, and member withdrawals are subject to rigorous scrutiny before being accepted for data entry.

All forms are fully examined before they are accepted - no forms are accepted from customers unless they are complete and accurate – if there are any errors, the forms are returned to the customer for correction. Importantly, payment for monthly contributions are not accepted unless they are accompanied by complete and correct schedules (eg all employees must have correct VNPF registration numbers, the total payment amount must agree with the contributions total etc.).

All actions are verified at each stage of the operational process, both before and after data entry, to ensure accuracy.

From observation, the restriction of withdrawals to one per member and the avoidance of making loans to members contribute to the good management and operation of the Fund.

18.16.2 Member withdrawals

The timeline target for the processing of member withdrawals is 3 days – the current processing time is 7 days. If the original target is regarded as achievable, the indications are that either there are insufficient resources available to process the number of withdrawals being lodged, or the process needs speeding up.

It is recommended that the number and type of errors being detected within the checking/verification process be recorded and reviewed so that action can be taken to prevent the errors being made in the first place through training, member education at the counter etc. If the number of detected errors is minimal, then the checking/verification process should be

reviewed to eliminate any unnecessary checking.

18.16.3 Compliance

Enforcing employer compliance with the law is an area of concern with most provident funds. It is a time consuming and labour intensive task, often with little result for the effort involved. It has been previously mentioned in this report that is considered that increased resources are needed both in HQ and in the Santo Branch office to address compliance needs.

Currently at HQ list of employers applying for business licence renewals are provided to VNPF by the Vanuatu Financial Services Commission to assist in the compliance activities. The checking of the lists against the employer database is a manual activity and therefore a labour intensive activity – much improvement could be achieved if the Commission could provide these lists on diskette, and programs developed to match the lists against the database, reporting on non-matches.

A much better result would be achieved if it could be negotiated with the licensing authority that having a certificate from the VNPF showing either registration or exclusion from the need to register as a pre-condition for licence renewal.

It has also been suggested that the authority with the responsibility of administering VAT procedures has much more accurate employer information that would assist the VNPF in its compliance activities, but has shown reluctance to share this information. It is recommended that that VNPF continue to press for access to this information in its efforts to ensure compliance with the law, perhaps seeking the assistance of the Ministry of Finance and the Ministry of Labour.

The Chamber of Commerce has also offered its help in the provision of employer information.

18.17 Information technology

18.17.1 System maintenance

There are still problems being experienced with the data records on the database, particularly in relation to the contribution schedule processing. Intermittently, member records disappear

appear on the pre-printed contributions schedules; and in some cases the entire schedule is not printed. This causes problems for both the employers and VNPF staff. These problems have been occurring occasionally for some years, and although attempts have been made by the consultants to fix these problems, they have to date failed. The problems are still listed as outstanding, and are still under investigation by the consultants.

There is a difficulty in communicating the details of program problems to the consultants via e-mail. Often there is little or no response to a first e-mail, and this is followed up by a second e-mail. If this elicits no response, contact by telephone is necessary.

One issue may be that the consultant may not realise how serious the problem may be, or what level of inconvenience the problem is causing to customers or staff.

It is recommended that agreement be reached with the consultants on a system for the allocation of priorities within the change management system so that the degree of severity of a problem can be immediately recognised by the consultants; also an expected target date for correction to be provided by the consultants on the receipt of problem/change notification.

Many complaints were received from staff about the length of time taken for the consultants to attend to requests for change to the system, and thought that only serious demands by management drew satisfactory results.

18.17.2 Fault reporting system

There is no formal hardware fault reporting system (although as equipment ages its performance is kept under review). It is standard practice in many organisation to formalise fault reporting by using a standard "fault docket" system where the faults can be recorded and monitored.

It is recommended that a "fault docket" be designed and used for fault reporting.

18.17.3 Backup

Corporate data is one of the most important assets of any organisation, and backup procedures are highly important. At the moment backup is done daily and held onsite – this procedure needs urgent review.

It is recommended to further enhance the backup cycle from a daily backup to a weekly, monthly, and annual cycle. This means that in the event of a major problem VNPF is able to recover data up to a year old.

It is also suggested to relocate the storage of the backup data to a location that is further way from the IT room to minimize the risk of losing the database server and the backup data in a single disastrous event. One of the possible data security strategies is as follows:

daily backup	located onsite but in a location further away from the IT room
weekly backup	offsite (close by for quick access and recovery)
monthly backup	offsite (away from the KPF office region)
yearly backup	offsite (outside the country that is not in the same region region).

It is also recommended to secure the data backup media from fire and water damage where affordable and practical to mitigate the risk of fire and water damage.

It is also necessary to develop a disaster recovery plan to enable the organisation to recover and continue its business operations in the event of a major disaster (eg a serious earthquake).

18.17.4 Use of the Internet

The VNPF is currently making good use of data provided by employers in electronic format – contributions schedules can currently be lodged by diskette or by e-mail. Further use of the internet is encouraged.

Use of the internet for banking, payment of bills, viewing credit card statements etc using Personal Identification Numbers (PIN) is now common practice in many countries. VNPF could consider the issue of PIN numbers to members and employers on request to enable them to view their account balance and

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activities via the internet; this may reduce the need for phone enquiries and printed member statements in the future.

If employers are encouraged to use the net for monthly lodgement of schedules and direct deposit banking for contribution payments, this would help reduce the public contact workload during the peak workload period at the end of the month.

The VNPF has a good website, which provides access to forms, information, media releases, newsletters etc. However it appears not to have had new information for members since 2003 – more emphasis should be placed on using the website to keep members and employers up-to-date on fund activities.

18.17.6 Computerised cheque printing

Cheques are currently written out manually using data extracted from the computer database. Consideration should be given to computer generated/printed cheques which would minimise transcription errors, provide greater security by internal control, and improve productivity

18.17.7 Double sided printing

The pre-printing, folding, enveloping, despatch etc of contributions schedules each month is a time consuming and labour intensive task which currently takes 1 – 2 weeks to complete. Use of a double sided printer (prints on 2 sides of the page) to print the schedules may help reduce the time and cost of the pre-printed schedule process.

This could also be of value for the printing of annual statements for members where the statements are more than one page.

18.17.8 Fingerprint scanning and matching

The VNPF is currently using fingerprint scanning and matching hardware and software within its own personnel system.

It is recommended that consideration be given to using a similar system to replace the current fingerprint ink system for members in the

registration and withdrawal processes, which are currently ineffective due to the lack of accurate fingerprint matching processes available in Vanuatu.

18.17.9 IT systems

This ILO project involves the review of the operations and IT systems of provident funds in 5 Pacific Islands – Vanuatu, Fiji, Kiribati, Samoa and Solomon Islands. While there are minor differences in activities across the funds, the major activities of the funds are the same – registration of members and employers, keeping member/employer details up-to-date, monthly collection and recording of contributions, withdrawals from member accounts, investment activities, financial reconciliation systems, personnel systems, management information systems etc.

Each of these funds have developed independent computer systems to basically undertake the same general tasks, either outsourcing the development to external consultants (incurring significant fees) or developing the systems in-house. Ongoing remote maintenance of each of the systems by consultants in other countries is also proving to be a continuing and expensive problem for the funds.

For the future it may prove useful and economic to look at the possibility of a regional approach for application software development and maintenance. IT managers could form a Regional Provident Fund IT Management Team, meeting regularly to discuss new applications development needs (eg Health Insurance, Workers Compensation, Pensions etc) to ascertain what benefits there may be in taking a common approach – either outsourcing development of a single system for a number of users, or in-house development by one fund for use by all funds. Ongoing systems maintenance could be undertaken using the same approach.

This would also provide a good opportunity to swap ideas and generate a *best practice* approach on a regional basis. Operations might also benefit from this approach.

18.18 Training and skills development

To date the VNPF has provided good training for its staff, particularly with its focus on

management training and IT user training. Initially this was because of the major changes to the organisation from 2000 on. However it should be realised that training and skills development are important ongoing requirements for any organisation, and it is recommended that there be an annual training needs assessment of staff, from which an annual training plan can be developed. It is also recommended that job rotation for staff be considered as an aid to skills development. Particular attention should be given to technical training for IT staff. Most organisations are becoming more and more dependent on IT systems to perform their day-to-day operations; IT systems are undergoing change more swiftly than ever, and it is important to keep IT staff up-to-date with technological change.

One suggestion may be to combine with other Pacific Island country Provident Funds who would have similar training needs a regional approach to technical and other training.

18.19 Santo branch office

As the Santo Branch Office has only recently had the online access available, it makes sense to progress gradually with full use of the systems. The potential for improvement in service delivery is great, when the office is able to use direct data entry, access to scanned documents, and to be able to have full access to online printing.

The whole operational process will need to be reviewed in order to take full advantage of the system facilities; the Santo Office should have the same access to the computer system services as the users in HQ.

An IT strategic plan for the implementation of the full computer services to the Santo Branch, including training, needs to be developed.

18.20 Public relations

Both the Vanuatu National Union of Labour and the Chamber of Commerce commented on the need for the VNPF to be more active in the provision of positive information on fund activities to employers, members, and the public.

The Trade Union suggested an increase in the VNPF promotional visits to worksites, and offered the use of its' delegates to distribute newsletters, brochures and information to its members.

The VNPF currently arranges one visit per month to large employers; perhaps this strategy needs review, though it is understood that resources for this activity are limited. The new appointment of a full time Public Relations Officer should be a positive step in addressing this important issue, increasing media releases, developing posters, information dissemination etc.

18.21 Housing loans

It has been mentioned that the VNPF is considering making housing loans available to members. This has serious operational, IT and policy implications, especially when considering the implementation of a pension scheme and the possible pooling of contributions into a central pension fund.

Serious thought should be given to whether the business functions a lending institution should be included in the role of the fund, rather than a banking authority that has the necessary capacity and experience to deal with such an issue.

If the decision is taken to progress this idea, it is recommended that an actuarial review be undertaken as a prerequisite.



PART III

NATIONAL SOCIAL SECURITY ACTION PLAN

Chapter 19

National Social Security Action Plans

Chapter 19 National Action Plans for Social Security in Vanuatu

19.1 Objectives of the national action plan

The National Action Plan for Social Security (NAPSS) is a final output of the ILO Project – *Subregional Initiatives on Social Security for the Pacific Island Countries*. Over the course of the project, major gaps in social security coverage have been identified by the technical review of social security and by the surveys of the formal and informal economy workers. A series of feasibility studies have been conducted in major areas of social security. These feasibility studies have formulated options on the potential social security programs and strategies on how they can be introduced or extended in Vanuatu.

The objective of the plan is to provide information for policy planners and stakeholders on key issues and feasible options to extend social security coverage in Vanuatu and to propose steps to translate these policy directions into national actions. The NAPSS will serve as a basis to develop future project strategies and provide guidance in implementing the key priority programmes at the national level.

The NAPSS is built on all the project outputs. Inputs to the plan were also provided by key stakeholders in two workshops, an initial workshop conducted in April 2005 and a final workshop in September 2005. Additional inputs were provided during a number of group and individual meetings and discussions. The draft plan was presented at the round table discussion on social security held on 15 December 2005 in Suva, which provided an opportunity to share the findings and get feedbacks from high level government authorities and social security organizations.

19.2 The National Action Plan

The scope of the NAPSS covers the following six programme areas:

- Social Health Insurance;
- Social Insurance Pensions;
- Unemployment Insurance;
- Social Assistance;

- Workers' Compensation; and
- Maternity Protection.

Each part comprises an overview of the programme and describes its background, gaps, needs, policy, gender issues, target groups, indicators, resources and implementation. In conjunction with policy analysis overview, a road map of a typical implementation strategy is outlined in short and long-term. A summary of the action plan at the end describes all of the programmes in terms of the rationale and outcomes. For more detailed analysis of the particular program, reference should be made to respective feasibility study in Part II of this sourcebook.

19.3 The purpose of the NSSAP

The purpose of the plan is to provide sufficient information for local key decision makers and stakeholders on the potential social security programs identified over the course of the project and how they may be introduced or extended in Vanuatu. The plan may therefore be seen as a suite of options that can be prioritised by the government for implementation to cover the gaps in social security programs in Vanuatu. It is recognised that implementation of more than one program will be difficult but the NSSAP and the supporting documents can be used as the basis for future consideration of social security development in Vanuatu. Some programs will have a much greater lead time and particularly where substantial changes are required such as pensions reform.

The NSSAP will be used as the basis for discussion with government and key stakeholders in order to develop future project strategies to assist in the implementation of the key priority programs and as a guide to local steering committees and technical teams.

19.4 General implementation strategy

Although the action plan is organised by individual social security programmes, an integrated approach should be taken to ensure that the reforms are strategically driven and that

the limited resources are appropriately allocated to the priority programmes. Therefore it is essential that a high level tripartite steering committee be established to coordinate the overall development of social security policy and programmes in Vanuatu. Core responsibilities of the tripartite steering committee are described as follows:

- Ensure the coordination of the policy development options and country priorities;
- Identify the appropriate institutions to implement social security programmes;

A strategic coordinating group is also essential to ensure that the limited and appropriate resources are allocated to the priority programs. The project management of implementation is intensive and highly skilled and it is most likely that specialist training of local teams will be required.

19.5 Conclusion: The way forward

Effective extension of social security requires strong long-term commitment and continuous efforts of the key stakeholders. It is important that the NAPSS is endorsed by Cabinet and recognised as a national priority.

The NAPSS identifies the key programmes for extension of social security in Vanuatu. It should be noted that a social security reform will require a sufficiently long lead time possibly three or more years in some cases. In some instances one social security organization may be involved in implementing multiple programmes. Given the long lead time and the

- Identify affordable and sustainable funding options;
- Monitor phased implementation of agreed priority programs;
- Conduct publicity, promotion and awareness raising of social security throughout the implementation process.

The project management of implementation is intensive and highly skilled and it is most likely that specialist training at national level will be required.

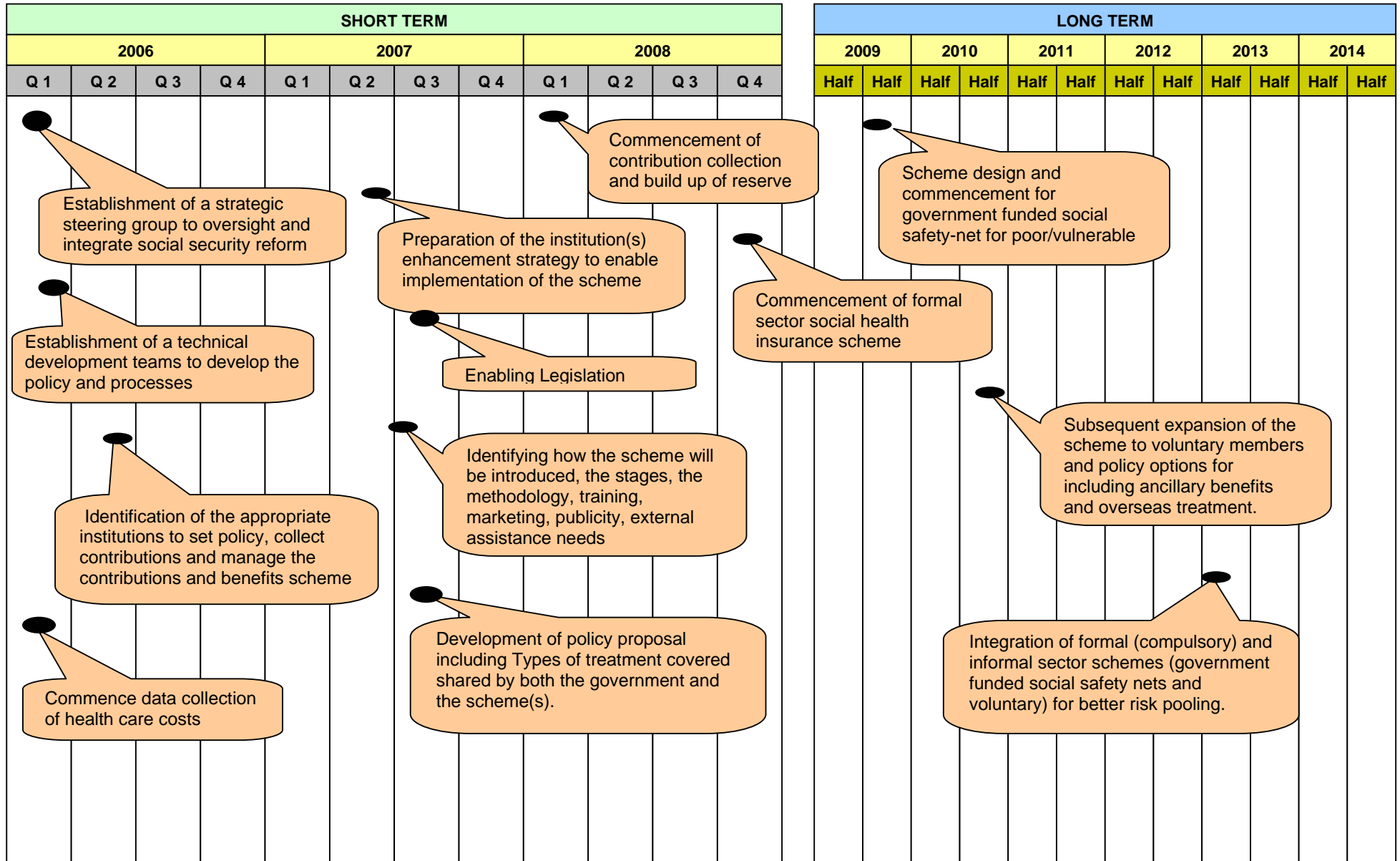
limited capacity of the key agencies for developing and implementing programmes, the programmes must be prioritised so that only one or two programmes could be considered at one time. The plan can therefore be seen as a set of options that can be prioritised by the government for implementation to cover the gaps in social security programs in Vanuatu.

It is recommended that **Social Health Insurance** and **Workers' Compensation** programmes be the initial priority for implementation with the possibility of including **Maternity Protection** given its relatively simple benefit processing requirements. The other programmes must be considered medium to long-term goals.

The ILO would be prepared, subject to financial resources being available, to provide further technical assistance in implementing this action plan and to conduct capacity building and trainings for improvements in governance and administration.

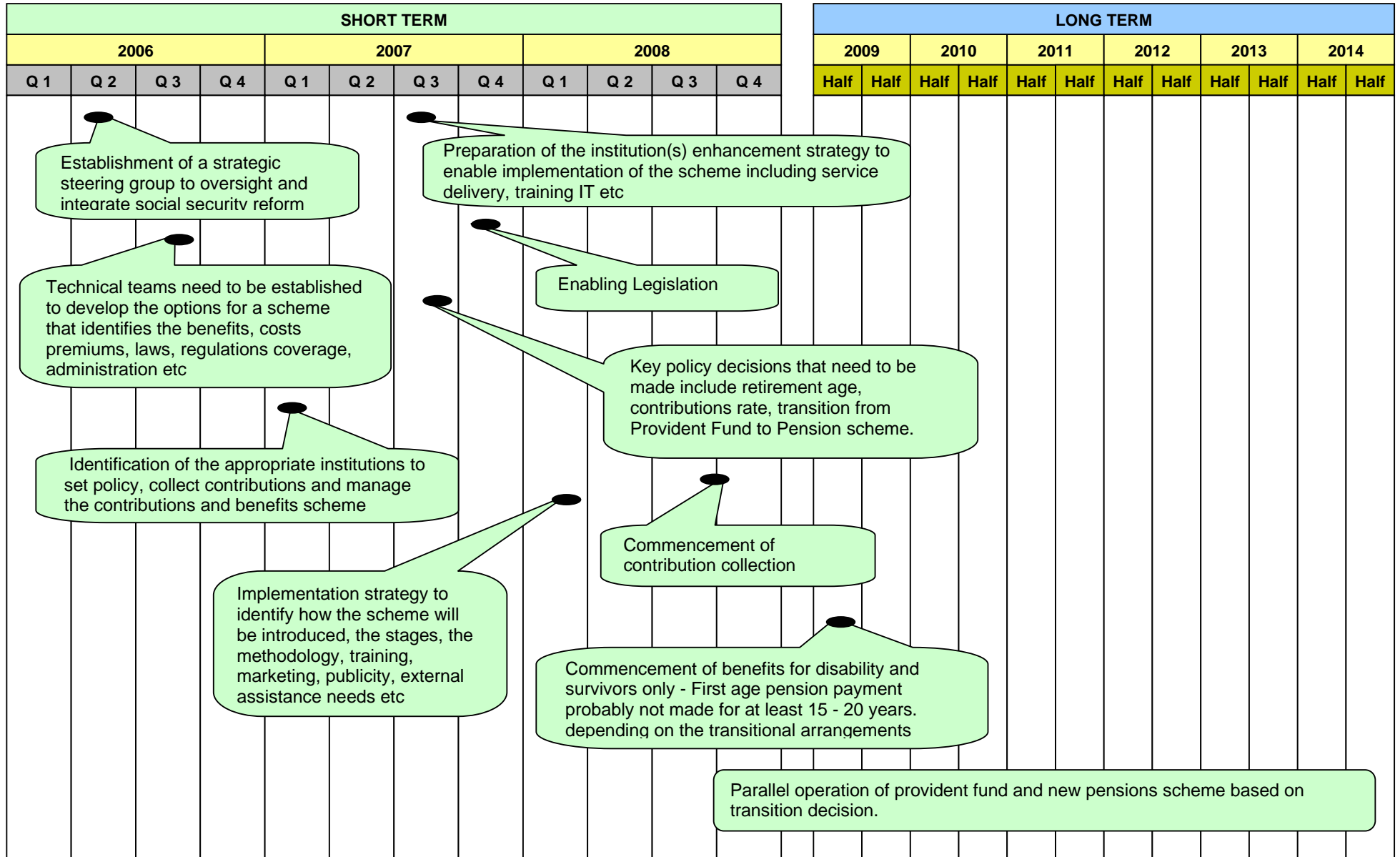
VANUATU		SOCIAL SECURITY ACTION PLAN - OVERVIEW			
Social Health Insurance		The Policy The government has proposed to split provision and financing by creating two independent boards. The proposed Health Financing Board would be instrumental in setting policy regarding health insurance.		The Target Groups The initial target groups would be the formal employment sector workers and their dependents. A government funded social safety net should be considered for the poor/vulnerable. Other informal sector can be covered on a voluntary basis.	
The Situation Vanuatu Currently provides free primary, secondary and tertiary health services to all residents. Selected treatment in overseas locations is available. This is supported by expenditure of around 4% of GDP on health care and 33% of health care costs are out-of-pocket expenses.		The initial stage of a social health insurance scheme would target formal sector (VNPF member) and their families. This would provide an additional and predictable flow of funds to the hospital and ensure budget sustainability. The cost of types of treatment covered could be either the responsibility of the scheme or the government or be shared by both. Subsequent expansion of the scheme could include ancillary benefits and provide voluntary or compulsory options for overseas treatment. The policy design should encourage the expansion and quality of health care services.		Long Term Indicators Long term indicators could see a reduction of external-to-hospital births, reductions in the number of people deferring essential treatment due to high out-of pocket expenses. Quality indicators should improve with demand driven services instead of supply driven and the entry of private providers into health care management in Vanuatu.	
The Needs Surveys conducted of both formal employment sector workers and workers in the informal economy rated health insurance as the highest priority social security need for themselves and their families.				Benefits of the Program The program would provide additional funding injected into the health care system (providing government expenditure continued at current proportions of GDP). This could result with improvement of range of services, retention of trained Ni-Vanuatu trained medical professionals and reduction in overseas treatments.	
The Gaps and Coverage The coverage of a compulsory Social Health Insurance scheme for formal employment sector workers would be about 15,000 workers. With around 5.1 dependents per household a total of 76,500 people or 41% of the population could be covered by the scheme.				Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical Assistance is required to improve medical data collection and analysis, to assist in policy development of the insurance scheme and in the transition of hospital management from government to quasi autonomous agencies managed by boards.	
The Gender Issues Women have special health needs and most of these can only be satisfied by out-of-pocket expenses. This causes a substantial reduction in income of informal economy and single parent families. The longevity of women and their predominantly care taker role makes health care a major issue for women.		The Institution The VNPF is a logical institution to collect contributions and also to manage an insurance scheme with the least cost and development time. This is based on the current state of development of other government and para-statal agencies in Vanuatu. Other options can be explored.		Other resources will include the establishment needs and this will depend on the institution chosen. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period.	
Implementation					
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	Health Care Delivery Issues Health care professionals and hospital staff need to develop the statistical base to provide the information and costs on which future premiums and benefits of the scheme will be based.	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT for the scheme.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.	

VANUATU - SOCIAL HEALTH INSURANCE ROAD MAP



VANUATU		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Social Insurance Pensions		The Policy The initial stage of pension scheme policy development will involve decisions about the target level of monthly pension which a worker should receive after a full working career, and how to convert from the provident fund to a pension scheme. Given the important role that lump sum payments play in Pacific Island cultures, it may be desirable to pay a small lump sum at retirement in addition to a pension. Conditions for payment of pensions to disabled workers and survivors must also be settled. In view of the increasing longevity of Ni-Vanuatu people, an appropriate retirement age must be set. Practical administrative arrangements for making periodic pension payments and serving workers and pensioners throughout Vanuatu must be designed. Once the pension scheme for provident fund members is in place, the possibility of a universal pension scheme can be pursued.	The Target Groups The initial target groups would be the formal employment sector workers and their dependents and with improvements and would be same groups as the current provident fund members. The informal economy will need special provisions from either government funded contributions to the scheme or a universal pension scheme similar to Samoa and Kiribati.	
The Situation The Vanuatu National provident fund provides the major retirement income for workers but only in the formal employment sector. Currently compulsory contributions of 8% (4% + 4%) of payroll are made on behalf of employees. Lump sum retirement benefits are paid at the retirement age of 55 years and on death, invalidity and migration. A special death benefit is also payable.		Long Term Indicators Long term indicators could see a reduction in disadvantaged age persons, homeless aged persons and improvements in aged care facilities. Other countries have identified an improvement in family ties when aged persons have some income and contribute to the family instead of being seen as a burden.		
The Needs Surveys conducted of both formal Employment Sector workers and workers in the informal economy rated retirement income support as the second or third highest priority social security need.		Benefits of the Program The program will reduce dependence of aged people on their families and the government and their spending from the pensions from the fund can sustain local economies particularly in town and villages. Replacing the lump sum with a lifelong pension will provide income security in old age where this is almost non-existent now.		
The Gaps and Coverage The compulsory retirement contribution through the provident fund covers formal employment sector workers only totaling around 15,000 workers. Around 82% of workers have no retirement income coverage and rely on traditional means in old age.		Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical Assistance is required to conduct initial actuarial studies and analysis, to assist in policy development of the insurance scheme and in the transition from a provident fund scheme to a social insurance pension. Other resources will include the establishment needs of the institution chosen. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period. It is likely that the provident fund will continue to coexist alongside a pension scheme although not attracting any new members who will all be diverted to the new pensions scheme.		
The Gender Issues In Vanuatu around 65% of the formal sector workforce is male and therefore women benefit much less from direct retirement benefits although some benefits will occur through their role as spouses. However as most retirement benefits are in the form of lump sums which are mostly spent in a few years, women will endure a longer period of old age due to their additional longevity over men with little or no retirement income.		The Institution The VNPF is a logical institution to collect contributions and also to manage pensions insurance scheme with the least cost and development time. This is based on the current state of development of other government and para-statal agencies in Vanuatu.		
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversee the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	Pension Delivery Issues Pension regular payments will require new initiatives to allow distribution of payments often in rural and remote areas as some pensioners retire to their home islands and villages.	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT for the scheme.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.

VANUATU - SOCIAL SECURITY PENSIONS SCHEME ROAD MAP

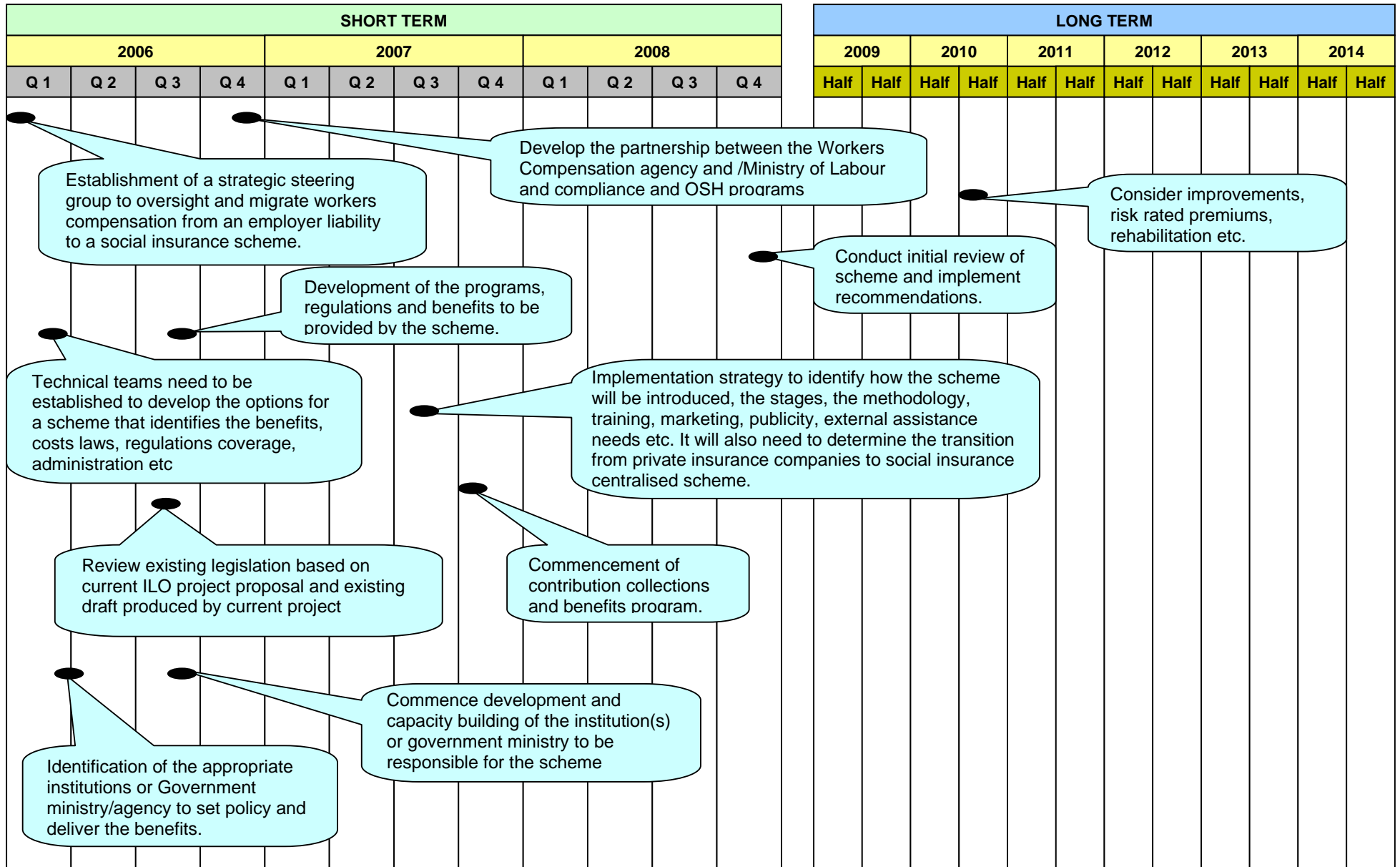


VANUATU		SOCIAL SECURITY ACTION PLAN - OVERVIEW					
<p>Unemployment Insurance</p> <p>The Situation There is currently no form of Unemployment Insurance available in Vanuatu. The existing labour legislation provides provisions for redundancy and severance pay for laid off and dismissed workers.</p> <p>The Needs Surveys conducted of both formal Employment Sector workers and workers in the informal economy rated Unemployment insurance as the priority social security need for themselves and their families. In the formal employment sector it rated second behind health insurance</p> <p>The Gaps and Coverage The coverage of a compulsory Unemployment Insurance scheme for formal employment sector workers would be about 15,000 workers. With around 5.1 dependents per household a total of 76,500 people or 41% of the population could receive income maintenance by the scheme. However taking into account the number of single workers in the formal employment sector and the potentially lower members per household this is the optimistic figure</p> <p>The Gender Issues Women often take the brunt of reduction in household income and their special role on the nurturing of families is affected in times of unemployment by the partner. For single parent families unemployment usually means descent into poverty or reliance on family for survival.</p>		<p>The Policy The initial stage of an unemployment insurance scheme could be based on providing short term income replacement for workers in the formal employment sector. The term and rate of payments in terms of percentage of replacement salary will determine the cost of the scheme. Other factors like waiting period, period of payment in any year and minimum membership period will also influence the potential cost of the scheme. The primary focus of unemployment insurance schemes is to place claimants in employment and the range of active labour market programs must also be introduced alongside the benefit program. This usually involves the Ministry of Labour maintaining job seeker databases, vacancy notices and vocational training programs to get unemployed workers back into the workforce as quickly as possible.</p>		<p>The Target Groups The initial target groups would be the formal employment sector workers and their dependents. It is not feasible to include informal economy workers in an unemployment insurance scheme due to the difficulty in identifying employee/employer relationships, unemployment and a salary regular rate. Social Assistance may be more appropriate for this group.</p>			
		<p>The Institution The VNPF is a logical institution to collect contributions and also possibly to manage the benefits components of the scheme offering potentially the lowest cost and shortest development time. This is based on the current state of development of other government and para-statal agencies in Vanuatu. The Ministry of Labour is the logical institution for the active labour market programs</p>		<p>Long Term Indicators Long term indicators could see a reduction of skilled workers migrating into the informal economy and disadvantaging lesser skilled and capable workers. It could also see a lessening of the economic downward spiral resulting from economic downturns, workplace closures and short term changes in the composition of the labour force.</p>			
		<p>Benefits of the Program The program would initially provide direct income replacement for laid off and dismissed workers and would maintain some local spending power through payments of benefits. The active programs would see improvements in the vocational training offered in Vanuatu and better matching of employer needs against the job seekers.</p>		<p>Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical Assistance is required to improve the institutional capacity of the benefits agency and to modify IT programs to include the contribution collection and regular benefits payment functions. Other resources will include the institutional development of the Ministry of Labour to expand the vacancy notification for employers, the job seeker information and access and to enhance the vocational training centres and to focus them on the skills needs of employers. The funding issues for the Ministry of Labour will greatly influence the outcomes of the re-employment component of the program.</p>			
		Implementation					
		<p>Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversee the reform process and provide direction to the development teams.</p>		<p>Benefits Policy Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc</p>		<p>Active Labour Market Measures The Ministry of Labour needs to develop the active labour market measures, job-seeker databases, vacancy reporting and notification processes, and job/skills matching. And the vocational training programs.</p>	
		<p>Institutional Reform The selection of the appropriate institutions to manage the components of the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT.</p>		<p>Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.</p>			

VANUATU		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Social Assistance		The Policy The recipients of social Assistance are the poor and disadvantaged and a range of categories and needy cases can be identified. Some of these categories include, poor families, sole parent families, homeless and land less people, disabled people, ex-prisoners and other people in need. The programs can provide cash assistance, in-kind assistance and subsidies or grants for special purposes. It can also provide special employment projects in local areas. The range of detailed policy needs to be determined based on the government and donor funding, local provincial funding and the needs in the community. The policy also needs to determine the degree of means testing and how it will be applied. The benefits rates need to be set to be able to alleviate poverty but also low enough not to inhibit individual enterprise and welfare dependence. The fraud control and prevention aspects need to be strong. The <i>Needs and Coverage</i> section shows the feasibility study recommendations.	The Target Groups The initial target groups could be low income families and individuals with special problems especially the elderly. Support to youth could be through education fee relief for children from poor families. The general community and can be assisted by an improved disaster relief program.	
The Situation Vanuatu Currently provides very little in the form of social assistance and the primary groups in need including the poor, the elderly, sole parents, disabled and youth must rely on traditional forms of support or from donors. The government does provide basic health care and for primary education but out-of-pocket expenses are high.		Long Term Indicators Long term indicators could see a reduction of school dropouts and improvements in school attendance particularly for girls. There should also be improvements in the key poverty indicators for the elderly and for sole parent families. Training programs identified in the needs will also improve employability of school dropouts by vocational skills development.		
The Needs and Coverage Some of the key priority needs identified in the social assistance feasibility study included: A permanent disaster relief fund, secondary education costs for children from low income families, hospitalisation costs, support services for the disabled, housing assistance for low income people, and training schemes for school leavers and drop-outs. Some informal programs exist through some labour unions and NGOs but this is localized and does not constitute access and equity for those in need		Benefits of the Program The Social assistance program will support the disadvantaged and poor members of Ni-Vanuatu society where the traditional Wantok system has broken down or is unable to support all of its members. It will also mitigate against poverty particularly for those who are unable to support themselves. By targeting youth and families it can also mitigate against social distress and disruption resulting from poverty.		
The Gender Issues Despite equality under the law, in practice Ni-Vanuatu women are less likely to be in paid employment In the traditional economy tend to have fewer rights of use of customary land and are often not included in decision making. They are also less likely to be able to access training in various types of skills. Women also tend to bear the brunt of adverse social changes, including marriage breakdown, sole parenthood, and domestic violence. There is no formal social safety net for most of these issues.		Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to improve data collection and analysis of poor and vulnerable people and in the categories determined by the policy. Other resources will be needed to fund the eventual programs and assistance in determining the fiscal capacity and new sources of funding will be required. Other resources will include the establishment needs and this will depend on the institution chosen. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period.		
The Institution Given the almost total government funding of social assistance a government Ministry is usually established to determine policy and deliver benefits. This organization will need to develop service delivery mechanisms, registration processes, fraud control and be strongly accountable for service provided.				
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	Benefits Delivery Issues The benefits programs are normally means tested and government. The type of benefits are usually for the poor and disadvantaged and special delivery methods are required to urban and rural areas	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.

VANUATU		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Workers Compensation		The Policy The concept of employer liability is somewhat dated and most countries now provide for a social insurance based workers compensation scheme administered by a para-statal body governed by a tripartite board. Contributions are made solely by employers and placed in a fund. The contributions can be risk rated or traditionally by a fixed percentage of payroll for all workers.	The Target Groups The initial target groups would be the formal employment sector workers and their dependents and with improvements in active OSH measures and safety campaign. Some of the benefits may also flow onto workplaces not covered e.g. in the informal economy.	
The Situation Vanuatu currently has an older style employer liability scheme for workers compensation based on compulsory insurance for employers to cover their workers in private insurance companies. There are two major insurers for workers compensation and one major insurance broker who are able to provide cover.		The Needs Surveys conducted of both formal Employment Sector workers and workers in the informal economy rated workers compensation at around the middle level of their priority social security need for themselves and their families.	Long Term Indicators Long term indicators could see a reduction in workplace accidents, minimization of the trauma associated with serious accidents and death and reduction in the associated health care and rehabilitation costs. A centralized scheme has better capacity to divert contributions into the worksafe and rehabilitation programs that the existing insurer based scheme	
The Gaps and Coverage The existing coverage of the compulsory worker compensation insurance scheme for formal employment sector workers is not totally clear and despite assurances from the regulator that information is available, the Ministry of Labour is unable to determine the extent of coverage/non-coverage of the workforce			Benefits of the Program Apart from the health and rehabilitation aspects the social insurance based workers compensation program will better provide for disabled workers and offers the benefit of social solidarity. Insurance based schemes also eliminate the conflict that can arise between employers/employees and insurers and not for profit benefits can flow on to the beneficiaries.	
The Gender Issues Whilst women represent only a third of the formal workforce and therefore covered by workers compensation legislation they constitute an equal representation in the family makeup that is subject to the benefits of workers compensation. In the absence of a workers compensation social insurance scheme the survivors have limited coverage by lump sum.		The Institution The VNPF is a logical institution to collect contributions and also to manage an insurance scheme with the least cost and development time. However this is a major change in direction to the current core business of the VNPF. Other options need to be explored.	Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to assist in policy development of the insurance scheme and in the transition of from private insurance to a regulated quasi autonomous board. Other resources will include the establishment needs and this will depend on the institution chosen. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period. The reporting mechanisms through management information will improve the current system and needs to be core element in the program. The link to OSH and funding are also essential resource considerations.	
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversee the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop the <i>options</i> for a scheme that identifies the benefits, costs premiums, laws, regulations coverage, administration etc	Compensation Benefits Health care professionals and administrators need to develop the policy and the costs on which future premiums, benefits and rehabilitation components of the scheme will be based.	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT for the scheme.	Implementation Strategy This will need to identify how the scheme will be introduced, the stages, the methodology, training, marketing, publicity, external assistance needs etc.

VANUATU – WORKERS COMPENSATION ROAD MAP



VANUATU		SOCIAL SECURITY ACTION PLAN - OVERVIEW		
Maternity Protection		The Policy	The Target Groups	
The Situation Vanuatu currently provides public sector employees with paid maternity leave for up to 12 weeks. Private sector employees are generally not provided with any maternity benefits nor are the traditional and informal economy workers. This means that around 90% of the workforce is not covered by any maternity benefits.		<p>Maternity protection programmes have a range of objectives, including:</p> <ul style="list-style-type: none"> • ensure that both mother and baby receive adequate medical care, • cover at least part of the additional medical and other costs associated with pregnancy and childbirth, • provide for a period of leave for a mother to move through the later stages of pregnancy and to recover from childbirth, • permit mothers (and sometimes fathers) to withdraw from paid work for a period to look after the baby, • provide income replacement for a period of withdrawal from the paid workforce, • protect the employment of the women workers concerned, and ensure that the same job or an equivalent job can be resumed on return from maternity leave, and • contribute towards greater gender equality for women workers. 	<p>The initial target groups would be the formal employment sector workers including the private sector workers. The beneficiaries will also include male workers especially those married with partners employed in the formal employment sector. Subsequent extension of coverage could consider support for women in the traditional and informal economy include some form of assistance towards health costs.</p>	
The Needs Although the surveys did not rate maternity protection as highly as other benefit, possibly due to the gender bias in the sample. Other forums and workshops identified maternity protection as a high priority among women workers		<p>Most current maternity leave schemes provide for 12, or 14 weeks paid leave, usually for 6 weeks prior to delivery of the baby, and 6 to 8 weeks after. The costs may be borne by employers, the employees or other insured persons, or by the government. The minimum standard for leave pay is 66.6% of salary in accordance with the minimum provisions of ILO convention No. 183.</p>	Long Term Indicators Long term indicators could see retention of women in the formal sector workforce and an improvement in the gender statistics and employment of women in more senior positions. Maternity protection lessens the likelihood of women permanently leaving the workforce. Maternity protection and the medical and nutritional components should support a reduction in the high rates of maternal and infant mortality in Vanuatu.	
The Gaps and Coverage The existing gaps in maternity protection are large at around 90% of the workforce having no entitlement to paid maternity leave. However medical costs are covered by the universal health scheme where there is negligible out of pocket expenses. The only workers with maternity protection are the public sector workers who represent around 76.7% of the formal workforce.		The Institution The VNPF is a logical institution to collect contributions and also to manage an insurance scheme with the least cost and development time. However this is a major change in direction to the current core business of the VNPF. Other options need to be explored	Benefits of the Program Apart from the health and welfare aspects and benefits to the economy in general, maternity protection can improve the relationships between employers and employees by removing the potential conflicts and costs associated with employing women. The moderate contributions to maternity protection schemes in essence pre pays for maternity protection enabling the employer to cover the costs in employing temporary staff during the period of maternity leave.	
The Gender Issues Maternity protection in the form of maternity insurance would support the employment of women in the formal economy and help to minimize some of the maternity discrimination of compulsory maternity leave. Many women appear to leave the workforce following childbirth which denies them equal participation and the benefits to the workforce and skills base.			Resources The program will require a range of resources in the stages of development and initial set up of the scheme. Technical assistance is required to assist in policy development of the insurance scheme. Other resources will include the establishment needs and this will depend on the institution chosen. Development of IT systems, for collection of contribution, payments and management information together with institutional costs will vary on the capacity of an existing institution if this is available. Some of these costs could be made available by the government, donors or by loans and defraying the setup costs over a long period. The costs of such a scheme are moderate and in Vanuatu a contribution rate of around 0.40% of salary could provide 12 weeks paid maternity leave for workers in the formal employment sector. Increasing this to 0.45 % could cover 14 weeks paid leave in accordance with the minimum provisions of ILO convention No. 183, Maternity Protection.	
Implementation				
Reform Task Force A strategic group comprising the key tripartite stakeholders needs to be established to oversight the reform process and provide direction to the development teams.	Policy Development Technical teams need to be established to develop <i>options</i> for a scheme that identifies benefits, costs, premiums, laws, regulations, administration.	Maternity Benefits Health staff and administrators need to develop the policy and the costs on which future premiums, benefits and other components of the scheme will be based.	Institutional Reform The selection of the appropriate institution to manage the scheme should be made as soon as practicable to allow for the reform of the institution to prepare its service delivery, operations and IT for the scheme.	Implementation Strategy This will need to identify how the scheme will be introduced, stages, the methodology, training, marketing, publicity, external support needs etc.



PART IV

ANNEXES

- Annex 1** **Selected International Experience in Extension of Social Security**

- Annex 2** **Vanuatu Statistical Tables**

- Annex 3** **Selected VNPF Financial Statements**

- Annex 4** **Vanuatu NGO Contact List**

- Annex 5** **Vanuatu Human Development Index**

- Annex 6** **Vanuatu Informal Economy Survey Form**

- Annex 7** **Vanuatu Formal Employment Sector Survey Form**

- Annex 8** **Amended Draft Workers Compensation Bill, 1999**

- Annex 9** **Bibliography**

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Annex 1 Selected International Experience in Extension of Social Security

Country	Target Groups	Organisations and Roles	Services & Programs	Methods of Financing	Status
India	Informal economy – rural and urban self-employed and home workers - for women workers only	Self-employed women's Association is a registered trade union that in addition to its labour force activities has an integrated social security program.	<ul style="list-style-type: none"> • Health Insurance • Health Care • Loans Insurance • Life/disability Ins. • Labour market collective • Child Care via co-ops 	<ul style="list-style-type: none"> • Premiums ($\frac{1}{3}$) • State Subsidies and Insurance companies ($\frac{1}{3}$) • Other subsidies from GTZ ($\frac{1}{3}$) 	Variable payment premiums to suit different income groups. Aims to achieve administrative and financial sustainability. Attempts to emulate social security in the formal economy by using extensive government and NGO participation in the delivery of services.
	Informal economy – rural tribal workers in Tamil Nadu	Action for Community Organisation, Rehabilitation and Development	<ul style="list-style-type: none"> • Credit Fund • Savings scheme • Health insurance • Composite social security, death, disability and property damage (in conjunction with an insurance company) 	<ul style="list-style-type: none"> • Premiums • Fees 	Main emphasis on the scheme was on participative and collective action. Despite the successful introduction of health care and social security schemes the insurance renewals proved to be a problem when the group is inactive. A proposed solution is to link insurance to a credit loan scheme.
Columbia	Informal economy – urban poor	The Andes Mutual Association is one of the entities authorised to operate within the Colombian social security system	<ul style="list-style-type: none"> • Provides primary, • Secondary and tertiary health care services 	<ul style="list-style-type: none"> • Premiums • Other subsidies and grants from co-financing with municipal authorities & from solidarity funds from employer/employee contributions 	Operating since 1999 and all of the beneficiaries are defined as living below the poverty line. Subscription not as high as other 175 funds in the national system. Management by an elected assembly with two year appointments
Philippines	Informal economy – workers on more formal contracts	Cooperative Life Mutual Benefit Services Association Inc Role is to develop cooperative banking and insurance services to coops.	<ul style="list-style-type: none"> • Health Insurance • Loans protection Ins. • Life/disability Ins. • Pensions • Coop officers protection 	<ul style="list-style-type: none"> • Premiums • Life savings plan that can be withdrawn on death or retirement • Premiums for loans protection are aged based 	Mutual agreement on earnings allows investment of funds in the national cooperatives federation to lend money and provide guarantees to cooperatives. Regional centres can retain 40% of premiums collected and the remainder pooled at national level. This promotes local as well as national development of cooperatives.
	Informal economy – rural and urban	Social Health Insurance/Networking and Empowerment aims to build up the national health insurance scheme to support local self-help initiatives	<ul style="list-style-type: none"> • Health Insurance • Health Care 	<ul style="list-style-type: none"> • State and municipal subsidies to fund health cover for the poor 	The program intends to integrate all existing health insurance schemes for informal economy workers into one national scheme. Family is the basis for cover and not individual. Support from GTZ to develop services, administration and technology.

Country	Target Groups	Organisations and Roles	Services & Programs	Methods of Financing	Status
	Informal economy – workers on more formal contracts	Angono Credit and Development cooperative scheme targets small businesses for loan protection, mutual support and medical services.	<ul style="list-style-type: none"> • Capital loans to small business • Loan re-insurance • Life/disability • Basic medical services • Pensions 	<ul style="list-style-type: none"> • Premiums • Fees 	Although the scheme is small and targeted at small business it is a viable micro-system that supports members with loans for business, housing repair, medical and education purposes.
Bangladesh	Informal economy – rural workers on casual piece-rate labour	Grameen Kalyan is a non-profit company that aims to promote health and preventative illness. It acts as a health care insurer & basic provider.	<ul style="list-style-type: none"> • Health Insurance • Loans Insurance • Life/disability Insurance 	<ul style="list-style-type: none"> • Fees • Subsidies provided through the Grameen Trust and profits from the full rate of service fees for non-poor 	The schemes are variable and have a range of prices for each scheme. Cost recovery is about 65% but increasing with membership encouraged through the associated Grameen Bank and its members.
Bolivia	Informal economy – urban poor and in some rural areas	Tomas Katari Polytechnic Institute has focus on education, production, organization and social activities.	<ul style="list-style-type: none"> • Basic Health Care 	<ul style="list-style-type: none"> • Premiums • Subsidies from non-state development agencies, donors and others. 	Due to its international subsidies it is not yet a sustainable micro-insurance scheme and current role is to expand access to health care services. Aims to gradually achieve sustainability.
South Africa	Informal economy – rural and urban	South African Old-age pensions is a non-contributory means tested benefit paid from general government revenue	<ul style="list-style-type: none"> • Periodical pension payment 	<ul style="list-style-type: none"> • State Funded from general taxation revenues (non funded mandate to local provinces) until 1999 guaranteed by the national government 	All South African social assistance now administered through one agency, Dept of Welfare. Pension is an important payment to poor households, although leakage and fraud is about 10% of payments. Payments in rural areas is outsourced using security firm with mobile ATM's
Tanzania	Informal economy – urban	Mutual Society for Health Care in the Informal Sector is an insurance scheme sponsored by ILO. It is self-funding, provides choice between govt, private providers & infrastructure.	<ul style="list-style-type: none"> • Primary health care, • Secondary and tertiary care at government centres 	<ul style="list-style-type: none"> • Contribution by members at single rate or family rate 	Care options for the various groups in the scheme were capitation, case payment and enterprise clinic. Control methods were emphasised and clearance for medical treatment that had to be obtained from the group leader. To be replaced by photographed ID cards. The scheme has been successful & sustainable, is internally managed & funded. The risk has been minimised by combining groups into larger groups each of about 400 members.

Annex 2 Vanuatu Statistical Tables

Table A2.1 Gross Domestic Product in million VUV, 2003

Item	Million VUV
Income	
Compensation of Employees	13,604
Gross Operating Surplus	14,491
Total Factor Income	28,096
Taxes less Subsidies	5,661
Gross Domestic Product	33,757
Expenditure	
Government Final Consumption	7,707
Household Final Consumption	21,085
Gross Fixed Capital Formation	6,753
Changes in Inventories	-42
Gross National Expenditure	35,503
Exports of Goods and Services	14,786
Imports of Goods and Services	19,829
Statistical Discrepancy	3,297
Gross Domestic Product	33,757

Source National Accounts of Vanuatu 1998-2003.

Table A2.2 Government Receipts and Expenditure

Item	2002	2003	2004
Tax Revenues			
Domestic Trade	3,334	3,663	3,996
International Trade	2,277	2,283	2,520
Other	51	75	107
Total Taxes	5,671	6,022	6,622
Non Tax Revenue	663	637	758
Capital Assets	21	16	10
Grants from Abroad	758	382	685
Total Receipts	7,082	7,056	8,075
Expenditures			
Salaries and Wages	3,993	4,130	4,155
Goods and Services	2,246	1,780	1,728
Interest Payments	319	353	369
Subsidies and Transfers	1,462	1,117	1,161
Capital Expenditure	376	242	280
Other Expenditure	15	8	1
Total Expenditures	8,410	7,629	7,693
Surplus or Deficit	-1,328	-572	382

Source: Quarterly Statistical Indicators Jan-March 2005

Table A2.3 Exports and Imports in Million Vatu

Year	Domestic Exports	Imports for Home Consumption
2002	1,928	12,235
2003	2,600	12,570
2004	3,294	14,067

Source: Quarterly Statistical Indicators

Table A2.4 Gross Domestic Product by Industry in 2003 - Million VUV

Item	VUV (Million)
Agriculture Fishing and Forestry	
Copra	619
Cattle	477
Cocoa	140
Kava	263
Other Commercial Agriculture	139
Subsistence Agriculture	3,310
Forestry and Logging	176
Firewood	139
Total	5,082
Industry	
Manufacturing	1,209
Electricity	683
Construction	887
Subsistence Construction	202
Total	2,981
Services	
Wholesale and Retail Trade	10,263
Hotels and Restaurants	2,385
Transport and Communications	4,261
Finance and Insurance	2,677
Real Estate and Business Services	2,081
Government Services	4,960
Personal Services	286
Domestic Services	464
Total	27,379
Less Imputed Bank Charges	-1,686
Gross Domestic Product	33,757
Net Factor Income From Abroad	-1,416
Gross National Income	32,341

Source: National Accounts of Vanuatu 1998-2003.

Table A2.5 Monetary Indicators in Million VUV

ITEM	2002	2003	2004
Money Supply (M1)	5,666	5,872	6,557
Foreign Assets of Reserve Bank	4,854	4,954	6,615
Bank Deposits			
In Vatu	11,238	11,824	13,492
In Foreign Currency	22,099	21,079	22,351
Total	33,336	32,903	35,843
Bank Lending			
In VUV	11,679	13,216	14,503
In foreign Currency	1,597	1,364	1,544
Total	13,275	14,580	16,047

Source Quarterly Statistical Indicators Jan--March 2005.

Table A2.6 Statistics from the 1999 Household Income and Expenditure Survey

Item	Indicator
Mean Household Size	5.4 persons
Mean Household Monthly Income in 1999	VUV 52,875
Mean Monthly Expenditure	VUV 44,936
Proportion on Food	32.5%
Proportion of Income from Salaries and Wages	65.6%
Mean Household Salaries and Wages	34,342
Mean Household Salaries and Wages in Port Villa	VUV 102,223
Mean in rural households	19,226
Own Dwelling (including on Family Land)	75%
Public Piped Water	21%
Flush Toilets	30%
VIP Toilets	10%
Electricity Main Source of Lighting	20%
Kerosene Main Source of Lighting	72%
Main Cooking with Firewood	81%
Main Cooking with Gas	18%

Annex 3 Selected VNPF Financial Statements

Table A3.1 Operating Statement (VUV '000)

Financial Element	2003	2002
Interest Income	250,976	170,528
Other operating expenses	63,597	82,352
Sub-total	314,573	252,880
Operating expenses ⁹²	(250,082)	(179,816)
Operating gains before government grants	62,491	73,064
Government grants	1,410	353
Operating gains before interest credit to members	63,901	73,417
Interest credited to members	(77,121)	(44,306)
Operating (loss)/gain after interest credited to members	(13,220)	29,111

Source: VNPF Annual report 2003, table does not include accounting notes, (see report)

Table 3.2 Members Funds 2003 (VUV '000)

2003	Members Funds	Special Death Benefit	General Reserve Account	Total
Balance at the start of financial year	3,991,006	44,490	46,868	4,082,364
Operating loss for the year			(13,220)	(13,220)
Contributions received	1,050,210			1,050,210
Non-members contribution transferred to operating income account	(18,475)			(18,475)
Interest credited to members account	77,121			77,121
Transfers	(8,334)	8,334		
Withdrawals/payments	(214,377)	(8,355)		(222,732)
Balance at the end of financial year	4,832,151	44,469	33,648	4,910,268

Source: VNPF Annual report 2003, table does not include accounting notes, (see report)

⁹² Includes unrealized exchange loss, 100,097, personnel expenses, depreciation, property maintenance and legal expenses.

Annexes

Annex 4 Vanuatu NGO Contact List

NGO Name	Contact Name	Last Name	Job Title	Mailing Address	Town/Village	Island	Tel	Fax	E-mail
AESOP Business Volunteers	Mark	Stafford	Vanuatu Representative	PO Box 240	Port Vila	Efate	22280	22317	bdo@vanuatu.com.vu
Agape Revival Singers Association	Serah	Toara	Coordinator	PO Box 1199	Port Vila	Efate	40792		
Apostolic Church Youth	Zebedee	Tanga	National Coordinator	c/- Apostolic Church, PO Box 680	Port Vila	Efate	46182/42696		zebedeetanga-8@hotmail.com
Bangbang Community Association	Willie	Esau	President	c/- Beverly Esau, VANGO, PMB 96	Port Vila	Efate	26034	26034	
Bani Street Association	Jonas	James	Chairman	PO Box 1254	Port Vila	Efate	40577/26868		
Botvasvas Family Association	Toto	Leopold Talkanamal	President	PO Box 595	Port Vila	Efate	41306/47968		
Buaso Community Association	John	Batick	Chairman	c/- VANGO, PMB 96	Teouma	Efate	26034		
Comité de secours catholique					Port Vila	Efate			
CUSO Vanuatu	Catherine	Sparks	Program Officer	PO Box 158	Port Vila	Efate	22119	24311	cusovila@vanuatu.com.vu
Disability Promotion and Advocacy Association	Andonia	Piau-Lynch	Coordinator	PO Box 1378	Port Vila	Efate	22809/22261		cedaw@vanuatu.com.vu
Eastern Star Cooperative	Jonas	James	Manager	PO Box 1254	Port Vila	Efate	40577/26868		
Etas Association	William	Samuel	Chairman	PO Box 595	Etas	Efate			
Fan Bang Association	Margaret David	Lengkon	Manager	c/- PO Box 1673	Konkon	Ambrym	45755		margaretdavid300@hotmail.com
Foundation for the Peoples of the South Pacific (FSP) Vanuatu	Amon	Gwero	Executive Director	PO Box 951	Port Vila	Efate	22915	24510	fspvan@vanuatu.com.vu
G & J Wood Association	Jules	Niowenmal	Coordinator	c/- Vango Office, PMB 96	Port Vila	Efate	47832		
Grass Root Small Business Association	Serah	Ligo	Secretary	c/- PMB 73	Port Vila	Efate	23095	23095	
Hautuhi Association	Dickinson	Tevi		c/- Anglican Church, PO Box 221	Port Vila	Efate	44119	26034	
Heren Hala Council of Chiefs	Selwyn	Garu	Secretary General	Sara	Sara	Pentecost	38428		

Annexes

NGO Name	Contact Name	Last Name	Job Title	Mailing Address	Town/Village	Island	Tel	Fax	E-mail
Hingea Association	Isaiah	Aru	Chairman	c/- Jack Iaken, VANGO, PMB 96	Lagatava	Pentecost	38388		
Integral Human Development Resource Centre	Charlie	Ulas	Coordinator	PO Box 340	Luganville	Santo	36842	36842	ihdc@vanuatu.com.vu
Islander Taxi/Bus Association	Toto	Leopold Talkanamal	President	PO Box 595	Port Vila	Efate	41306		
Lakalakabulu Council of Chiefs	Ezeikel	Tari	Vice-President	c/- Lolovanghe Church of Christ	Lolovanghe	Ambae	38398		
Lakelai Association	Vano	Henry		c/- Airports Vanuatu, PO Box 131	Port Vila	Efate	25565		
Lanalukin Development Association	Jack	Yaken	Coordinator	c/- VANGO, PMB 96	Port Vila	Efate	26034	26034	
Le Filao Association	Michel	Morris	Chairman	c/- VANGO, PMB 96	Port Vila	Efate	22708		
Linda Dywer School	Zembu	Georges	Headmistress	PO Box 2007	Port Vila	Efate	23624/42471		
Lofutialau Mini Mill									
Loheau Community Association	Kaso	Robert			Middle Bush	Tanna	68012		
Lolihor Development Committee Association	George	Bumseng	Coordinator	Ranon	Ranon	Ambrym	48604		
Lolihor Youth Awareness Team	Pakon	Bong	Coordinator	c/- CUSO, PO Box 158	Ranon	Ambrym	48405/48990		
Loukas Community	Ronald	Nauruan		PO Box 878	Lenakel	Tanna	68005		
Lounuhuru Lonunilo Community	Iaris	Etaka			Middle Bush	Tanna	68012		
Mabfilau Association	Lisa	Murgatroyd	Secretary	c/- USP, PMB 72	Port Vila	Efate	26738		
Malampa Association of NGOs	Reggie	Kaimbang	President	PO Box 22	Lakatoro	Malekula	48481	48491	mlpc@vanuatu.com.vu
Manarow Community Association	Silas	Aru	Chairman	Labwea	Loltong	Pentecost	38314		
Matanal Council Association									
Medecins du Monde Vanuatu	June	Guy	Project Administrator	PO Box 362	Luganville	Santo	36677	36036	mdm.vanu@vanuatu.com.vu
Nasonal Komuniti Developmen Trust	Lai	Sakita	Coordinator	PO Box 1511	Port Vila	Efate	22969	22969	nkdt@vanuatu.com.vu
National Spiritual Assembly of Baha'is of Vanuatu	Charlie	Pierce	Secretary	PO Box 1017	Port Vila	Efate	22419	25419	cbpierce@vanuatu.com.vu

Annexes

NGO Name	Contact Name	Last Name	Job Title	Mailing Address	Town/Village	Island	Tel	Fax	E-mail
Naydofmi Association						Ambae	38398		
Ni Vanuatu Hospitality Staff Association	William	Pakoa	Interim Chairman	c/- PO Box 145	Port Vila	Efate	22040/45154	23340	fom@meridien.com.vu
North Efate Indigenous Farmers Association	Michael	Daniel	President	c/- Shefa Province, PMB 78	Emua	Efate	24786		
North Malekula Association	Joseph	Tord	President	c/- Kathy Solomon, VRDTCA, PO Box 925	Port Vila	Efate	27740/22117		
Penama Resources	Dickinson	Tevi	Secretary	c/- VANGO, PMB 96	Port Vila	Efate	44119		d_tevi@yahoo.com.au
Rakatnee Tribe White Grass Association	Peter	Iakou	Contact Person	c/- Education Office, PMB 28, Port Vila	Whitegrass	Tanna	22309	23289	
Rotary Club of Santo	John	Scadeng	Chairman	PO Box 259	Luganville	Santo	36114	36143	
Sanma Small Saw Mill Association	Jean	Baptiste	Chairman		Luganville	Santo	36087		
Save the Children Australia - Vanuatu	Hilson	Toaliu	Country Program Director	PO Box 283	Port Vila	Efate	22794/23876	25214	cpmvila@vanuatu.com.vu
Sawias Streets Women's Association	Elsie	Sawias		c/- Post Office	Port Vila	Efate	22000	23900	
Sorovango Community School	Abel	David	Principal	PO Box 232	Port Vila	Efate	27912	27912	
South Pamma Community Association	Sam	Abel		Leihili School	Leihili	Pamma	48624		
Tadwila Rural Training Centre South East Tanna	Pastor Bob	Kimson	Manager	Port Resolution, c/- Isangel Postal Agency	Port Resolution	Tanna	68859		
Tagabe Hemerkiki Association	Amsen	Willie		c/- VANGO, PMB 96	Port Vila	Efate			
Tanna Private Security Services	Henry	Naio	Manager	PO Box 1539	Port Vila	Efate			
Transparency International Vanuatu	Lynette	Pierie	Acting Manager	PO Box 355	Port Vila	Efate	25715/22091	25716	tiv@vanuatu.com.vu
Vanua Indigenous Development Association	Lora	Lini-Gamali	Resource Person	c/- VANGO, PMB 96	Port Vila	Efate	44119		lnlg2004@yahoo.com
Vanuatu Association of Women Graduates	Jeanette	Bolenga	President	PO Box 1342	Port Vila	Efate	41281	26510	admin@sria.com.vu
Vanuatu Credit Union League	Noé	Saksak	Managing Director	PO Box 390	Port Vila	Efate	24731	24731	vcul@vanuatu.com.vu

Annexes

NGO Name	Contact Name	Last Name	Job Title	Mailing Address	Town/Village	Island	Tel	Fax	E-mail
Vanuatu Family Health Association	Blandine	Boulekone	Executive Director	PMB 9065	Port Vila	Efate	22140	24627	vfha@wantok.org.vu
Vanuatu Good Governance Association	Bob	Kuao	Chairman	PO Box 301	Port Vila	Efate	47003/44958		vgga@vanuatu.com.vu
Vanuatu Grass Roots People Foundation	Tom Pita	Noclam	Coordinator	c/- Department of Provincial Affairs, PMB 21	Port Vila	Efate	26066/24659		tpita@vanuatu.gov.vu
Vanuatu National Council of Women	Jenny	Garae Ligo	Chief Executive Officer	PO Box 975	Port Vila	Efate	23108/25364	27210	vncw@vanuatu.com.vu
Vanuatu National Workers Union	Ephraim	Kalsakau		PMB 89	Port Vila	Efate	24294		
Vanuatu Network of Women for Development and Sustainability in Micro financing				PMB 77	Port Vila	Efate	26829		vanwods@vanuatu.com.vu
Vanuatu Red Cross Society	Leias	Cullwick	Chief Executive Officer	PO Box 618	Port Vila	Efate	27418	22599	redcross@vanuatu.com.vu
Vanuatu Renewable Energy Power Association	David	Stein	Project Manager	c/- FSP, PO Box 951	Port Vila	Efate	22915	24510	solarsolutions@vanuatu.com.vu
Vanuatu Rural Development Training Centre's Association	Kathy	Solomon	Managing Director	PO Box 925	Port Vila	Efate	27740	27853	vrtdca@wantok.org.vu
Vanuatu Society for Disabled People	Elison	Bovu	Executive Director	PO Box 373	Port Vila	Efate	22321	27633	vanuatudisable@vanuatu.com.vu
Vanuatu Sports For All Association	Ancel	Nalau	Coordinator	c/- VASANOC Office, PO Box 284	Port Vila	Efate	43578		
Vanuatu Teacher's Union	Wenjio	Tamau	President	PO Box 287	Port Vila	Efate	23679	26903	VUVu.sev@vanuatu.com.vu
Vanuatu Women's Centre	Merilyn	Tahi	Coordinator	PO Box 1358	Port Vila	Efate	25764	22478	vwnc@vanuatu.com.vu
Voluntary Services Overseas (VSO)	Cindy	Fair	Program Director	PO Box 514	Port Vila	Efate	26508		vso@vanuatu.com.vu
Wan Smolbag Theatre	Jo	Dorras	Communication Officer	PO Box 1024	Port Vila	Efate	27119	25308	smolbag@vanuatu.com.vu
Wantok Environment Centre	Gina	Tari		PO Box 145	Luganville	Santo	36720	36720	information@positiveearth.org
World Vision Vanuatu	Simon	Boe	Country Program Manager	PO Box 207	Port Vila	Efate	22161	25209	w.v.van@vanuatu.com.vu
Youth Challenge International Vanuatu	Georgia	Noy	Program Director	PO Box 1105	Port Vila	Efate	28182	24510	youthchallenge@vanuatu.com.vu

Annex 5 VANUATU Human Development Index

1. Human development index

Life expectancy at birth (years) (HDI), 2002	68.6
Adult literacy rate (per cent ages 15 and above) (HDI), 2002	34.0 1
Combined gross enrolment ratio for primary, secondary and tertiary schools (%), 2001/02	59
GDP per capita (PPP US\$) (HDI), 2002	2,890 2
Life expectancy index	0.73
Education index	0.42
GDP index	0.56
Human development index (HDI) value, 2002	0.570
GDP per capita (PPP US\$) rank minus HDI rank	- 13

2. Human development index trends

Human development index, 2002	0.570
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3. Human and income poverty: Developing countries

Probability at birth of not surviving to age 40 (% of cohort), 2000-05	7.3
Adult illiteracy rate (% ages 15 and above), 2002	..
Population without sustainable access to an improved water source (%), 2000	12
Children underweight for age (% under age 5) (HPI-1), 1995-2002	20 3

4. Demographic trends

Total population (millions), 1975	0.1
Total population (millions), 2002	0.2
Total population (millions), 2015	0.3
Annual population growth rate (%), 1975-2002	2.7
Annual population growth rate (%), 2002-2015	2.2
Urban population (% of total), 1975	15.7
Urban population (% of total), 2002	22.4
Urban population (% of total), 2015	28.6
Population under age 15 (% of total), 2002	40.6
Population under age 15 (% of total), 2015	34.9
Population age 65 and above (% of total), 2002	3.4
Population age 65 and above (% of total), 2015	4.0
Total fertility rate (births per woman), 1970-75	6.1
Total fertility rate (births per woman), 2000-05	4.1

5. Commitment to health: resources, access and services

Public health expenditure (% of GDP), 2001	2.3
Private health expenditure (% of GDP), 2001	1.6
Health expenditure per capita (PPP US\$), 2001	107

One-year-olds fully immunized against tuberculosis (%), 2002	90
One-year-olds fully immunized against measles (%), 2002	44
Oral rehydration therapy use rate (%), 1994-2002	..
Contraceptive prevalence rate (%), 1995-2002	..
Births attended by skilled health personnel (%), 1995-2002	89
Physicians (per 100,000 people), 1990-2003	12

6. Water, sanitation and nutritional status

Population with sustainable access to improved sanitation (%), 2000	100
Population with sustainable access to an improved water source (%), 2000	88
Children underweight for age (% under age 5), 1995-2002	20 4
Children under height for age (% under age 5), 1995-2002	19 4
Infants with low birthweight (%), 1998-2002	6

7. Leading global health crises and risks

Malaria cases (per 100,000 people), 2000	3,260
Tuberculosis cases (per 100,000 people), 2002	147
Tuberculosis cases detected under DOTS (%), 2002	37
Tuberculosis cases cured under DOTS (%), 2001	88

8. Survival: progress and setbacks

Life expectancy at birth (years), 1970-75	54.0
Life expectancy at birth (years), 2000-05	68.8
Infant mortality rate (per 1,000 live births), 1970	107
Infant mortality rate (per 1,000 live births), 2002	34
Under-five mortality rate (per 1,000 live births), 1970	160
Under-five mortality rate (per 1,000 live births), 2002	42
Probability at birth of surviving to age 65, female (% of cohort), 2000-05	73.1
Probability at birth of surviving to age 65, male (% of cohort), 2000-05	66.3
Maternal mortality ratio reported (per 100,000 live births), 1985-2002	68
Maternal mortality ratio adjusted (per 100,000 live births), 2000	130

9. Commitment to education: public spending

Public expenditure on education (as % of GDP), 1990	4.6
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Annexes

Public expenditure on education (as % of GDP), 1999-2001	10.5
Public expenditure on education (as % of total government expenditure), 1999-2001	26.7
Public expenditure on education, pre-primary and primary (as % of all levels), 1990	59.8
Public expenditure on education, pre-primary and primary (as % of all levels), 1999-2001	27.9
Public expenditure on education, secondary (% of all levels), 1990	26.6
Public expenditure on education, secondary (% of all levels), 1999-2001	57.4
Public expenditure on education, tertiary (% of all levels), 1990	3.4
Public expenditure on education, tertiary (% of all levels), 1999-2001	10.5

10. Literacy and enrolment

Net primary enrolment ratio (%), 1990/91	71
Net primary enrolment ratio (%), 2001/02	93
Net secondary enrolment ratio (%), 1990/91	..
Net secondary enrolment ratio (%), 2001/02	28
Children reaching grade 5 (%), 2000/01	95

11. Technology: diffusion and creation

Telephone mainlines (per 1,000 people), 1990	18
Telephone mainlines (per 1,000 people), 2002	33
Cellular subscribers (per 1,000 people), 1990	0
Cellular subscribers (per 1,000 people), 2002	24
Internet users (per 1,000 people), 1990	0
Internet users (per 1,000 people), 2002	34.6

12. Economic performance

GDP (US\$ billions), 2002	0.2
GDP (PPP US\$ billions), 2002	0.6
GDP per capita (US\$), 2002	1,138
GDP per capita (PPP US\$), 2002	2,890
GDP per capita annual growth rate (%), 1975-2002	0.2 5
GDP per capita annual growth rate (%), 1990-2002	- 0.1
GDP per capita, highest value (PPP US\$), 1975-2002	3,860 5
GDP per capita, year of highest value	1984
Average annual change in consumer price index (%), 1990-2002	2.7

13. Structure of trade

Imports of goods and services (% of GDP), 1990	77
Imports of goods and services (% of GDP), 2002	..
Exports of goods and services (% of GDP), 1990	49
Primary exports (% of merchandise exports),	86 6

2002	
Manufactured exports (% of merchandise exports), 1990	13
Manufactured exports (% of merchandise exports), 2002	8 6
High-technology exports (% of merchandise exports), 1990	20
High-technology exports (% of merchandise exports), 2002	1 6

14. Flows of aid, private capital and debt

Official development assistance (ODA) received (net disbursements) Total (US\$ millions), 2002	27.5
Official development assistance (ODA) received (net disbursements) Per capita (US\$), 2002	133.0
Official development assistance (ODA) received (net disbursements) (as % of GDP), 1990	33.0
Official development assistance (ODA) received (net disbursements) (as % of GDP), 2002	11.7
Net foreign direct investment inflows (% of GDP), 1990	8.7
Net foreign direct investment inflows (% of GDP), 2002	6.4
Other private flows (% of GDP), 1990	- 0.1
Other private flows (% of GDP), 2002	0
Total debt service (As % of GDP), 1990	1.6
Total debt service (As % of GDP), 2002	0.9
Total debt service (As % of exports of goods and services), 1990	2.1
Total debt service (As % of exports of goods and services), 2002	1.0 7

15. Priorities in public spending

Public expenditure on education (% of GDP), 1990	4.6
Public expenditure on education (% of GDP), 1999-2001	10.5
Public expenditure on health (% of GDP), 1990	2.6
Public expenditure on health (% of GDP), 2001	2.2
Total debt service (% of GDP), 1990	1.6
Total debt service (% of GDP), 2002	0.9

16. Energy and the environment

Traditional fuel consumption (% of total energy requirements), 2001	50.0
Electricity consumption per capita (kilowatt-hours), 1980	171
Electricity consumption per capita (kilowatt-hours), 2001	4,813
Carbon dioxide emissions - Per capita (metric tons), 1980	0.5
Carbon dioxide emissions - Per capita (metric tons), 2000	0.4
Carbon dioxide emissions - Share of world total (%), 2000	(.)

17. Gender-related development index

Life expectancy at birth, female (years), 2002	70.4
Life expectancy at birth, male (years), 2002	67.4
Combined gross enrolment ratio for primary, secondary and tertiary level schools, female (%), 2001/02	58
Combined gross enrolment ratio for primary, secondary and tertiary level schools, male (%), 2001/02	59

18. Gender empowerment measure

Seats in parliament held by women (% of total)	1.9
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19. Gender inequality in education

Female primary net enrolment ratio (%), 2000/01	94
Primary net enrolment ratio (female as % of male), 2000/01	1.02
Female secondary net enrolment ratio (%), 2000/01	28
Secondary net enrolment ratio (female rate as % of male rate), 2000/01	1.01

20. Women's political participation

Year women received right to vote	1975, 1980
Year women received right to stand for election	1975, 1980
Year first woman elected (E) or appointed (A) to parliament	1987 E
Seats in lower house or single house held by women (as % of total), 1990	4.0
Seats in lower house or single house held by women (as % of total), 2004	1.9
Seats in upper house or senate held by women (as % of total), 2004	NA

21. Status of fundamental labour rights conventions

Freedom of association and collective bargaining - Convention 87	..
Freedom of association and collective bargaining - Convention 98	..
Elimination of forced and compulsory labour - Convention 29	..
Elimination of forced and compulsory labour - Convention 105	..
Elimination of discrimination in respect of employment and occupation - Convention 100	..
Elimination of discrimination in respect of employment and occupation - Convention 111	..
Abolition of child labour - Convention 138	..
Abolition of child labour - Convention 182	..

Notes :

- 1 - Data are from national sources.
2 - Estimate based on regression.

3 - Data refer to a year or period other than that specified, differ from the standard definition or refer to only part of a country.

4 - Data refer to a year or period other than that specified, differ from the standard definition or refer to only part of the country.

5 - Data refer to a period shorter than that specified.

6 - Data refer to 2000.

7 - Data refer to 2001.

Annex 6 Vanuatu Informal Economy Survey Form

Version 14 September 2004

Administration notes for Data Collectors

The purpose of this survey is to provide initial mapping on the social security situation for informal and rural people. It aims to get a broad view of their current social security needs and views and their capacity or willingness to contribute to a scheme.

You should anticipate a limited understanding of social security by the respondents and you may have to spend a few minutes at the outset to set the scene with basic information. The suggested minimum briefing is shown below. This briefing should be supplemented with the additional information provided by your coordinator.

Your contact person	Name:	Mr Marokon Alilee	Telephone:	(678) 23808
	Address:	Vanuatu National Provident Fund PO Box 420, Port Vila, Vanuatu	Fax:	(678) 24673

The ILO wishes to thank you for your assistance in completing this survey.

Suggested Minimum Briefing to Participants

Thank you for agreeing to participate in this survey

The purpose of the survey is to collect information that will be used to make proposals to the government on how it could be possible to extend social security entitlements to people in the community. This survey is anonymous and **no records of your personal information** that could identify you will be taken. The data will only be used by ILO in the form of statistics.

What is Social Security?

Social security is a system where people (men and women) can be insured against life events that result in loss or restriction in their income. This means that people make regular contributions to a fund and if they lose their income for a variety of reasons then they can receive payments or services from the fund. These programs aim to provide income support and other assistance to people in times of need. The types of life events that are usually covered for are:

- **Unemployment** – workers who are insured can receive some part of their previous salary for a limited period if they are laid off work through no fault of their own,
- **Maternity** – payments are made to insured female workers for part of the period they are off work before and after childbirth and also for medical treatment,
- **Illness and invalidity** – insured workers can receive part of their salary if they are temporarily sick and unable to work or receive longer term payments should they be unable to work again,
- **Accident or death** – insured workers receive income and medical expenses if they have a work related accident and their families receive a lump sum payment in the event of their death,
- **Widows and sole parents** – can receive payments subject to being the partner of an insured worker or if their insurance premiums are covered by the government, and
- **Age** – where retired workers who have made a certain level of contribution to the fund can receive a regular pension payment to support them in old age.

Other types of support can be provided to assist in education, housing and to raise children. ***People who have paid their insurance*** can receive a certain level of assistance that has been determined by the administrators of the program. In most countries this is funded by small regular contributions from individuals, by employers and in some cases by the government. The funds are usually kept in trust for all of the contributors and the investment earned from the funds helps to improve the level of benefits people can receive. The principle is very much like the Vanuatu National Provident Fund but a social security scheme can provide a wider range of benefits than the VNPF does at the moment.

Your help will be invaluable in the aim to provide social security benefits to everyone.

John Angelini
Chief Technical Adviser

Mobile (679) 990 6665

Notes

Ignore for
fisherman

1. Personal Information		2. Education		3. Farmers/Fisherman		4. Land area			
Age	<input type="text"/>	None	<input type="checkbox"/>	Do you own your land/boat?	Yes / No	> 5 acres	<input type="checkbox"/>		
Married	<input type="checkbox"/>	Primary	<input type="checkbox"/>	How much lease do you pay?	Vt <input type="text"/> p.m.	1.0 – 5.0 acres	<input type="checkbox"/>		
Single	<input type="checkbox"/>	Secondary	<input type="checkbox"/>	Risk of being evicted/losing boat?		0.5 – 1.0 acres	<input type="checkbox"/>		
# of Dependents	<input type="text"/>	Tertiary	<input type="checkbox"/>	High	<input type="checkbox"/>	Small	<input type="checkbox"/>		
Sex	M <input type="checkbox"/> F <input type="checkbox"/>	Trade	<input type="checkbox"/>	None	<input type="checkbox"/>	< 0.5 acres	<input type="checkbox"/>		
				Nature of Crops grown/fish caught	<input type="text"/>				
5. Employment Status		6. Occupation		7. Do you have insurance on crops/boats?		9. Why no Insurance cover or micro insurance?			
Self Employed	<input type="checkbox"/>	Fisherman	<input type="checkbox"/>	Yes	<input type="checkbox"/>	Not available here <input type="checkbox"/>			
Regular Employee	<input type="checkbox"/>	Farmer	<input type="checkbox"/>	No	<input type="checkbox"/>	Unable to get cover (risk) <input type="checkbox"/>			
Casual worker	<input type="checkbox"/>	Home worker	<input type="checkbox"/>	Yes	<input type="checkbox"/>	Benefits not high enough <input type="checkbox"/>			
Unpaid worker	<input type="checkbox"/>	Retail/market	<input type="checkbox"/>	No	<input type="checkbox"/>	Unable to afford premium <input type="checkbox"/>			
Employer <input type="checkbox"/> No. Employees <input type="checkbox"/>		Other	<input type="checkbox"/>	8. Do you have other micro insurance?					
10. Income Pattern		11. Which months do you earn most income?				12. Which months do you earn No income?			
How do you sell produce?		January		July		January		July	
Market	<input type="checkbox"/>	Own Use	<input type="checkbox"/>	February	<input type="checkbox"/>	August	<input type="checkbox"/>	February	<input type="checkbox"/>
Cooperative	<input type="checkbox"/>	Contract	<input type="checkbox"/>	March	<input type="checkbox"/>	September	<input type="checkbox"/>	March	<input type="checkbox"/>
Direct sale	<input type="checkbox"/>	Barter	<input type="checkbox"/>	April	<input type="checkbox"/>	October	<input type="checkbox"/>	April	<input type="checkbox"/>
% of Income is cash (rest goods & food)?		May		November		May		November	
100	<input type="checkbox"/>	80	<input type="checkbox"/>	June	<input type="checkbox"/>	December	<input type="checkbox"/>	June	<input type="checkbox"/>
60	<input type="checkbox"/>	40	<input type="checkbox"/>						
20	<input type="checkbox"/>	<20	<input type="checkbox"/>						
		14. How do you pay costs then?		15. Annual Income – Self		16. Annual Income – Household			
13. Do you receive regular income?		Gift from Family		> Vt.20,000		> Vt.20,000			
Yes / No		Personal savings		Vt.15,001 – Vt.20,000		Vt.15,001 – Vt.20,000			
		Sell some assets		Vt.10,001 – Vt.15,000		Vt.10,001 – Vt.15,000			
		Borrow money		Vt.5,001 – Vt.10,000		Vt.5,001 – Vt.10,000			
		Assistance govt/NGO		< Vt. 5,000		< Vt. 5,000			
		Accumulate Debt							
17. Are you a member of a Social Security program?		18. What Social Security programs would do you need?		19. What is your priority order Social Security program?					
Work Injury	<input type="checkbox"/>	Work Injury	<input type="checkbox"/>	Work Injury	<input type="checkbox"/>	Mark as a number 1 to 8. # 1 top priority			
Health Insurance	<input type="checkbox"/>	Health Insurance	<input type="checkbox"/>	Health Insurance	<input type="checkbox"/>				
Maternity	<input type="checkbox"/>	Maternity	<input type="checkbox"/>	Maternity	<input type="checkbox"/>				
Aged/Retirement	<input type="checkbox"/>	Aged/Retirement	<input type="checkbox"/>	Aged/Retirement	<input type="checkbox"/>				
Death/Life Insurance	<input type="checkbox"/>	Death/Life Insurance	<input type="checkbox"/>	Death/Life Insurance	<input type="checkbox"/>				
Unemployment	<input type="checkbox"/>	Unemployment	<input type="checkbox"/>	Unemployment	<input type="checkbox"/>				
Housing	<input type="checkbox"/>	Housing	<input type="checkbox"/>	Housing	<input type="checkbox"/>				
Education Plan	<input type="checkbox"/>	Education Plan	<input type="checkbox"/>	Education Plan	<input type="checkbox"/>				
NONE	<input type="checkbox"/>								

20. Would you contribute to Social Insurance?Yes No Maybe **22. Who should contribute for your Social Security?**

Individual (self) Local community
 Employer Shared by all
 Employer & Employee Don't know
 National Government Other

21. Reason for not wishing to contribute?

No need – happy with family arrangements
 Cannot afford to contribute
 Benefits paid by schemes too low
 Don't trust administrators of schemes
 Don't provide services I need
 Not allowed to contribute
 Need more information to decide

23. Without social security, who will look after you when you are unemployed, injured, sick, aged, etc?

Self
 Savings
 Family
 Government
 NGO/Church
 No one

24. How much (per month) could you pay for Social Security?

> Vt. 800
 Vt. 601 – Vt. 800
 Vt. 401 – Vt. 600
 Vt. 201 – Vt. 400
 < Vt. 200
 Could not pay

25. Do you have other micro loans?

Yes
 No

26. Why no Micro loans?

Not available here
 Unable to get loan (collateral)
 Repayments too high
 Capital not high enough
 Unable to afford deposit

27. Membership of Organizations

Rural cooperative
 Micro Insurance
 Provident Fund
 Health Insurance
 Youth or Church
 Other

*This question to be completed by Data collector***28. Demographic Information**

Name of town/village/location

Predominant enterprise in the area

Fishing	<input type="checkbox"/>	Subsistence farming	<input type="checkbox"/>
Services	<input type="checkbox"/>	Plantation	<input type="checkbox"/>
Mixed farming	<input type="checkbox"/>	Retail, market centre	<input type="checkbox"/>

Remote location Yes No

Built-up area Yes No

Approx size of local community (people)

Approx distance to nearest large town Kms Hours

Interviewer

Date / / 2004

Other comments or Feedback.

INSTRUCTIONS TO DATA COLLECTORS

These instructors are intended to expand on the questions and to provide guidance on the meaning of the questions, their purpose and the rationale behind the reason for seeking the information. All enquiries should be directed to the survey supervisor and the details shown on page 1.

In the event that a question proves to provide inconclusive answers or the data not valid because of difficulties in estimations then the question may not be used in the analysis, however data collectors should endeavor to estimate as accurately as possible the responses from the person being interviewed.

It is important that you do not create an impression in the mind of the respondent that social security is going to happen!! At all times you should stress that this is a survey and these questions are only about what is possible not probable.

1. This question is basic person data, although the number of dependents could pose a problem to some people about whether dependents are children only or other dependents like parents etc. All dependents in the household should be included.
2. Education is the highest level of education achieved by the respondent.
3. This question is intended to identify the costs and risks of losing income. Rent is in Vt per month, it is clearly applicable to most villagers who will in some way or other be linked to the land or sea for livelihood.
4. For small farmers the land area will indicate the degree of capacity to earn a living. Whilst it may not be immediately apparent we may be able to link income with land size to determine how poor or otherwise a small farmer may be.
5. The employment status seeks to identify broad occupation status only and the last question identifies whether the person is an employer and if so, how many employees he has. This may establish that an employer/employee relationship exists and together with income the potential for compulsory contribution to the provident fund.
6. Whilst there are a number of possibilities the most likely are in these areas for informal economy workers, once again the link to land or sea may be inferred from the data. It is likely that some people may be subsistence workers on both fishing and farming and response 3 fish/farmer would be the most appropriate.
7. Insurance on crop or boats is probably unlikely but it is essential that the question is asked.
8. Other micro-insurance may include village loans for welfare related purposes like death benefit programs, health care etc. This is different to micro loans used for development, machinery and other purposes. This is asked in Q 26.
9. The four most likely reasons for not having insurance are provided here and the respondents may identify with more than one but obviously if micro insurance is not available in the area then the first option is correct and the others irrelevant. The last 3 choices only apply if micro insurance is available in the area.
10. Income pattern has a number of choices which could be multiple, you should try to identify which is the greatest value and mark that. i.e. if own use and market are both options then you need to select the one which represents the greatest value. The second part, per cent of income in cash is the most difficult but respondents need to be able to apply a value to their in-kind consumption. You should

not get too hung up on an answer as this is a very subjective answer but if a value can be stated by the respondent then using the local typical mean income may be used to best guess the per cent of income in cash.

11. For subsistence farmers they may identify all months where they get most income so you should check all months, although it is most likely that some months are going to be more difficult than others. This response could identify the periods where people may need most assistance or in conjunction with Q12 could indicate when contributions could most likely be made.
12. As above
13. This follows on from Q12 to identify the regularity of income; and
14. You should try to select the most frequent option of the options presented. This will assist in the identification of the local community options and by the frequency of answers how strong they are.
15. The annual income of the individual may present some problems particularly where the income is not all cash. Therefore the answers derived in Q10 about income patterns may assist with this response also. Once again this question is likely to be a best guess particularly for subsistence farmers.
16. This is the household income and not of the extended family. You need to try to get an estimate of the income about other members of the family if known by the respondent.
17. Whilst the responses appear technical you can use simplified versions for the respondent, by phrasing the question in terms of benefits for “loss of job”, “support payments if you are sick” instead of unemployment benefit or sickness benefit.
18. The discussion in Q18 also applies to this question.
19. The priority is the final in this trio of questions and we are trying to find out here what the person feels are the most important needs for their own situation. You may not go right down the list as some people may only consider two or three important. However it would be useful if they could rate as many as possible.
20. This question needs to be explained carefully so the respondent understands what social insurance means. We need to explain the principle that if they contributed a regular amount to the scheme then they are current members and if one of the events they are insured for (e.g. sickness) occurs then they can be paid the benefit in accordance with the terms of the scheme. If they answer no then you need to go to Q22. If they answer yes go to Q 23.
21. This question is only relevant for those who indicated in Q21 that they would not be prepared to contribute to a social insurance scheme.
22. This provides options for respondents to indicate who should be responsible for their personal social security, i.e. who should be pay for their benefits as opposed to who should deliver the benefits. The purpose of this question is to find out who they think should fund the schemes that will provide their social security benefits.
23. In this question we need to try to find out who provides for their benefits now and who will look after them in the event of the typical loss of income events like unemployment, sickness, invalidity, age etc

Annexes

24. This is a hypothetical in that we need to suggest that in spite of what has been said up to date if they had to pay for their social insurance, how much could they or would they afford to pay. You may well have to suggest that they would not have to decide this until a range of services was available. We need to ask them to assume that there were a range of services available and no one else was going to pay for them.
25. This is about micro loans, not micro insurance, for savings for any purpose and not loans for social security. Micro loans might be for development, crop improvement, housing, personal reasons etc.
26. Once again this question is for those who answer no to the previous Q. Here we are trying to find out why they don't have a micro loan, of course if they identify with the first option "no loans available here" then that is obviously the prime answer.
27. Membership of organisations may assist in the consideration of providing micro-insurance/loans where group based membership and collections have proven to be the most successful.
28. This question is for data collectors to complete to provide us with some demographic and physical characteristics of the area in which the respondent lives.

Annex 7 Vanuatu Formal Employment Sector Survey Form

Version - 15 February 2005

Notice to survey participants

Thank you for agreeing to participate in this survey

The purpose of this survey is to provide information about the social security situation for people in the paid workforce. It aims to get a broad view of their current social security cover, their needs and views and their capacity or willingness to contribute to an extended scheme.

The information will be used to make proposals to the government and to the VNPF on how it could be possible to extend social security entitlements to people in the paid workforce. This survey is anonymous and **no records of your personal information** that could identify you will be taken. The data will only be used by ILO in the form of statistics.

What is Social Security?

Social security is a system where people (men and women) can be insured against life cycle events that result in loss or restriction in their income. This means that people make regular contributions to a fund and if they lose their income for a variety of reasons then they may receive payments from the fund. These programs aim to provide income support and other assistance to people in times of need. The types of life cycle events that are usually covered for are:

- **Unemployment** – workers who are insured can receive some part of their previous salary for a limited period if they are laid off from work through no fault of their own,
- **Maternity** – payments are made to insured female workers for part of the period they are off work before and after childbirth. The benefits often include cover for medical costs due to childbirth.
- **Illness** – insured workers can receive part of their salary if they are temporarily sick and unable to work or receive longer term payments should they be unable to work again,
- **Invalidity or disability**– insured workers can receive longer term payments (usually pensions) if they are permanently incapacitated and unable to work again,
- **Accident or death** – insured workers receive income and medical expenses if they have a work related accident and their families receive a lump sum payment in the event of their death,
- **Widows and sole parents** – can receive payments subject to being the partner of an insured worker or if their insurance premiums are covered by the government, and
- **Age** – where retired workers who have made a certain level of contribution to the fund can receive a regular pension payment to support them in old age.

Other types of support can be provided to assist in education, housing and to raise children. ***People who have paid their insurance*** can receive a certain level of assistance that has been determined by the administrators of the program. In most countries this is funded by small regular contributions from individuals, by employers and in some cases by the government. The funds are usually kept in trust for all of the contributors and the investment earned from the funds helps to improve the level of benefits people can receive. The principle is very much like the Vanuatu National Provident Fund but a social security scheme can provide a wider range of benefits than the VNPF does at the moment.

Your help will be invaluable in the aim to provide social security benefits to everyone.

The ILO wishes to thank you for your assistance in completing this survey.

If you would like further information or wish to discuss any issues relating to this survey or the project please contact

Name: Mr. Marokon Alilee

Telephone: (678) 23808

1. Your personal information

Age

SexMale / Female.

Married

Single

Number of Dependents....

2. What is the highest education standard you have achieved?

None

Primary

Secondary .

Tertiary

Trade

3. What are the terms of your current employment?

Self Employed

Regular full-time employee

Regular part-time employee ...

Casual worker

4. Are you employed in the private or public sector?

Public Sector

Private Sector

5. What is your occupation?

Legislators, senior officials, managers

Professionals

Technicians and associated professionals

Clerks

Workers in services. shops. market sales

Skilled agricultural and fishery workers

Plant and machine operators. assemblers

Elementary occupations/semi skilled

Other (please specify)

6. What is your gross annual income?

> Vt.20,000

Vt.15,001 – Vt.20,000

Vt.10,001 – Vt.15,000

Vt.5,001 – Vt.10,000

< Vt. 5,000

The VNPF currently provides social security benefits for age retirement, disability and for survivors in the event of the death of a member. Under certain conditions you may be able to get other benefits such as small loans, housing pledges, medical and education.

Other types of social insurance can provide benefits to replace income that has been lost through

- **Unemployment** – workers who are insured can receive some part of their previous salary for a limited period if they are laid off from work through no fault of their own,
- **Maternity** – payments are made to insured female workers for part of the period they are off work before and after childbirth. The benefits often include cover for medical costs due to childbirth.
- **Illness and invalidity** – insured workers can receive part of their salary if they are temporarily sick and unable to work or receive longer term payments should they be unable to work again,
- **Accident or death** – insured workers receive income and medical expenses if they have a work related accident and their families receive a lump sum payment in the event of their death, and
- **Widows and sole parents** – can receive payments subject to being the partner of an insured worker or if their insurance premiums are covered by the government.

7. Are you a current member of the FNPF?

Yes

No

8. Do you have social security cover for any of the following events?

When you are unemployed.....

For maternity and childbirth

Temporary sickness.....

Permanent injury or death.....

Workplace accidents or death

Age retirement

Income support if you lose your partner ...

Education support for your children

Health insurance for you and your family ..

9. Who provides for your health insurance?

Employer provided scheme.....

Private health insurance

Workers group scheme

Credit union or union based scheme

No one (public health cover only).

Other (please specify)

10. Which of these social security services do you need?

- Income when you are unemployed
- For maternity and childbirth
- Temporary sickness.....
- Permanent injury or death.....
- Workplace accidents or death
- Age retirement
- Income support if you lose your partner
- Education support for your children
- Health insurance for you and your family..

11. Please list your needs in priority order (1 to 8), the most important being 1 and least important need being 8.

- Income when you are unemployed
- For maternity and childbirth
- Temporary sickness.....
- Permanent injury or death.....
- Workplace accidents or death
- Age retirement
- Income support if you lose your partner
- Education support for your children
- Health insurance for you and your family ..

12. Who will look after you if you do not have these additional social security programs?

- Self
- Savings
- Family
- Government
- Religious group .
- Non government organisation.....
- No one

Date / / 2005

13. Who should contribute for your social insurance or social security?

- Individual (self) Shared by all ...
- Employer Don't know
- National Government Other
- Local Government (please specify)

14. Would you contribute for additional social security coverage for all of some of your priority needs?Yes No Maybe **15. If you are not prepared to contribute please indicate the reasons.**

- No need – happy with family arrangements
- Cannot afford to contribute
- Benefits paid by schemes too low
- Don't trust administrators of schemes
- Don't provide services I need
- Not allowed to contribute

16. If you had no other options but to contribute for additional social insurance, how much per month could you contribute?

- > Vt. 800
- Vt. 601 – Vt. 800
- Vt. 401 – Vt. 600
- Vt. 201 – Vt. 400
- < Vt. 200
- Could not pay

Other comments you would like to make

Thank you for taking part in this survey

Annex 8 Amended Draft Workers Compensation Bill, 1999

(with amendments in bold)

A BILL

TO MAKE PROVISION FOR THE COMPENSATION OF WORKERS WHO SUFFER WORK RELATED ACCIDENTS AND DISEASES, FOR THE COMPENSATION OF CERTAIN DEPENDANTS IN THE EVENT OF DEATH RESULTING FROM SUCH ACCIDENTS OR DISEASES, AND FOR PROMOTING THE PREVENTION OF SUCH ACCIDENTS AND DISEASES.

PART 1 PRELIMINARY

Short title and commencement

1-(1) This Act may be cited as the Workers Compensation Act, 1999. **2005**

(2) This Act shall come into force on a date or dates appointed by the Minister and published in the Vanuatu Gazette.

(3) The Minister may by one or more notices appoint different dates for the coming into force of different provisions of the Act

Interpretation

2. In this Act, unless the context otherwise requires:

“accident”	has the meaning assigned to it by Section 5 or any regulations made there under;
“adjudicating authority”	means the Board, a medical board or the Appeal Authority acting in the discharge of their respective functions under Part VIII;
“Appeal Authority”	means the Workers Compensation Appeal Authority established under section 58;
“applicant”	means a person who has made an application to the Board under subsection (3) of section 54;
“assessed”	means assessed in accordance with section 3 1;
“beneficiary”	means, in relation to any compensation, the person entitled to that compensation;
“the Board”	means the Workers Compensation Board established under section 12;
“casual worker”	means any worker the terms of whose engagement provide for the workers payment at the end of each day’s work and who is not engaged for a longer period than twenty-four hours at a time;
“Chief Executive”	means the Chief Executive of the Board appointed under section 19;
“child”	means a person under the age of twenty one years means a child of the deceased insured person— (a) who is a child under twenty-one years of age and includes— (i)a posthumous child, a dependent stepchild and an illegitimate child of the insured person; and (ii) a child adopted by the insured person under any written law relating to adoption or under any custom or usage, on satisfactory proof of such adoption; and (b) who is a child of any age certified as incapable of supporting herself or himself by virtue of physical or mental incapacity
“claimant”	includes, in relation to an award or decision, a beneficiary under the
award	or affected by the decision
“compensation”	without qualification, means any compensation payable under Parts III, IV, V or VI;

“compensation for incapacity for work	means compensation under Part III; “compensation for permanent disablement” means compensation under Part IV “compensation in the event of death” means compensation under Part V;
“contract of service”	means any contract of service or apprenticeship, whether written or oral and whether express or implied;
“contribution”	means any sum payable by way of a contribution to the Workers Accident Compensation Fund under subsection (1) of section 72;
“date of disablement”	means in relation to any claimant for compensation for permanent disablement- (a) the date of the relevant accident; or (b) where the relevant loss of faculty became permanent after the date of the relevant accident, the date specified in accordance with subsection (7) of section 3 1 in the assessment of the extent of the claimant’s disablement as being the date on which the relevant loss of faculty became permanent;
“date of entitlement” means-	(a) in relation to compensation for permanent disablement, the date of disablement; (b) in relation to compensation in the event of death, the date of the death of the deceased;
“day”	means the period of twenty-four hours from midnight to midnight or such other period of twenty-four hours as may be prescribed;
“day of incapacity for work”	means a day which is treated as a day of incapacity in accordance with section 28;
“the deceased”	means, in relation to compensation in the event of death, the person in respect of whose death such compensation is claimed or payable;
“disablement question”	has the meaning assigned to it by subsection (5) of section 54;
“domestic worker”	means a person employed in connection with the work of a private dwelling-house and not in connection with any trade, business or profession carried on by the employer in such dwelling-house and includes a cook, house worker, child’s nurse, gardener, laundry worker, security officer, and driver of any vehicle licensed for private use;
“earnings”	has the meaning assigned to it by section 10;
“employer”	means a company, corporation or an individual by whom a worker is employed under a contract of service. It includes government departments and statutory, public and local authorities;
“employment”	includes any trade, business, profession, office or vocation;
“General Manager”	means the General Manager of the Board appointed under section 19;
“hospital”	means a hospital, clinic, dispensary, health centre or nursing station which is maintained out of public funds or, if not so maintained, which is recognized by the Board;
“illness”	has the meaning assigned to it by section 7; “injury” has the meaning assigned to it by section 5;
“inspector”	means an inspector appointed under section 20;
“insurable earnings”	means the earnings on which contributions were paid to the Board
“insured person”	means a person who is insured under this Act
“medical board”	means a medical board constituted in accordance with section 55.
“medical examination”	includes bacteriological and radio graphical tests and similar investigations;
“medical treatment”	means medical or surgical treatment; and references to a person receiving or submitting himself or herself to medical treatment must be construed accordingly;
“Minister”	means the Minister responsible for labour affairs the administration of this Act;
“nominee”	means a person nominated by a worker in accordance with the provisions of section 34 to receive the whole or part of such workers compensation in the event of the death of such worker.
“occupational disease”	has the meaning assigned to it by section 7;
“outworker”	means a person to whom articles or materials are given out to be made up, cleaned, washed, altered, ornamented, finished or repaired, or adapted for sale in the person’s own home or on other premises not

	under the control or management of the person who gave out the articles or materials.
“parent”	has the meaning assigned to it by section 34(10) “permanent partial disablement “ means such disablement of a permanent nature as reduces the earnings capacity of an employee in every employment which he was able to undertake at the time of the accident resulting in the disablement Provided that every injury specified in Part II of the Second Schedule shall be deemed to result in permanent partial disablement.
“permanent total disablement”	means such disablement of a permanent nature as disables an employee for all work which he was capable of performing
at the time	of the accident resulting in such disablement, Provided that permanent total disablement shall be deemed to result from every injury specified in Part I of the Second Schedule or from any combination of injuries specified in Part II thereof where the aggregate percentage of the loss of earning capacity as specified in the said Part II against those injuries, amounts to one hundred per cent or more.
“primary dependants”	means, in relation to the deceased — (a) the widow or widower of the deceased, as the case may be, if she or he was not, at the death of the deceased, ordinarily gainfully employed for more than thirty hours a week; and (b) any child of the family of the deceased within the meaning of subsection (4) of section 34;
“registered employer”	means an employer who is registered as an employer under the National Provident Fund Act;
“registered medical practitioner”	means a person registered under the Medical Practitioners Act, and, in relation to the case of a claimant residing outside Vanuatu, a person who is so registered or, with the consent of the Board, a person who is not so registered but who is, in the opinion of the Board, qualified to be so registered;
“registered nurse”	means a person registered as a nurse in the register maintained under the Nurses and Midwives Act;
“regulations”	mean regulations recommended by the Board and made by the Minister under this Act; -
“relative”	means a parent and brother or sister
“relevant earnings”	has the meaning assigned to it by section 11;
“remuneration”	has the meaning assigned to it by section 72 (3)
“schedule”	means a Schedule to this Act
“self-employed person”	means a person who is gainfully employed otherwise than as a worker, whether or not the person employs others;
“spouse”	means either of a man or a woman who (i) are married to each other; or (ii) not being married to each other, have cohabitated and, in the opinion of the Board, have entered into a relationship in the nature of marriage; by civil ceremony, religious service or custom and the terms husband, wife, widow and widower shall be construed accordingly;
“surcharge”	means any sum payable under subsection (7) of section 72; “trade union” has the meaning assigned to it by the Trade Unions Act;
“temporary incapacity”	mean a condition resulting from an employment injury which requires medical treatment and renders an employee, as a result of such injury, temporarily incapable of doing the work which he was doing prior to or at the time of the injury.
“week”	means any period of seven days, except where the expression is otherwise defined;
“worker”	has the meaning assigned to it by section 8; “the Workers Accident Compensation Fund” means the fund established under paragraph (a) of section 71;

“the Workers Compensation Board’s General Fund” means the fund established under paragraph (b) of section 1; and
 “year” means any period of twelve months. -

General purposes of this Act

3. The purposes of this Act are

- (a) to make provision for the compensation —
 - (i) of workers who suffer personal injury caused by employment related accidents or who suffer illness caused by occupational diseases; and
 - (ii) of certain of their dependants in the event of death resulting from such accidents or diseases; and
- (b) to promote the prevention of employment related accidents and occupational diseases.

Scope of insurance under this Act

4-(1) Subject to the provisions of this Act, every worker shall be insured as hereafter provided by this Act—
 (a) against personal injury caused on or after the appointed day by any employment related accident if the worker was a worker at the date of the accident. —

(b) against personal illness caused by occupational disease if the date of the development of the illness is not earlier than the appointed day and if the worker was a worker at that date; *and* references in the Act to any accident against which a worker is insured under this Act and to any disease against which a worker is so insured shall be construed accordingly. Provided that a worker shall not be insured under this Act where the worker suffers personal injury in the course of committing an offence for which the worker is convicted and sentenced to imprisonment.

(2) For the purpose of subsection (1) the date of the development of an occupational disease shall be determined in accordance with regulations under section 70.

(3) Where a claim is made under this Act in respect of any accident or occupational disease the relevant employment shall, in relation to that accident or disease, be treated as having been lawful employment, notwithstanding that by reason of a contravention of some provision contained in or having effect under any written law passed for the protection of workers the contract purporting to govern the employment was void or the worker was not lawfully employed at the time when the accident or disease occurred.

(4) In subsection (3) the expression ““ relevant employment”” means, in relation to an accident or disease, the employment out of and in the course of which the accident or disease arises.

(5) The provisions of this Act shall have effect notwithstanding anything to the contrary in any contract or agreement; but nothing in this Act shall prevent any contract or agreement providing for greater benefits than, or benefits additional to, those provided under the Act.

(6) No sick leave entitlement or other right of a worker shall be reduced by reason of the liability of the employer under this Act.

(7) No compensation, award or allowance shall be payable or provided under this Act in respect of—

(a) Any personal injury that a worker wilfully inflicts on himself or herself or, with intent to injure himself or herself causes to be inflicted upon himself or herself or death resulting there from; or

(b) the death of any worker where the death was due to suicide. Provided that nothing in this section shall affect the entitlement of any person where the personal injury or suicide was the result of mental injury or conduct caused by an accident or disease against which the worker was insured under this Act.

Accidents

5-(1) or the purposes of this Act “accident” means, in relation to any worker, any event or series of events which results in any injury to a worker arising out of and in the course of the worker’s employment?

(2) For the purposes of this Act an accident arising in the course of a worker’s employment shall be deemed, in the absence of evidence to the contrary, also to have arisen out of that employment; and references to a worker’s employment shall be construed as references to the employment by virtue whereof the worker is a worker for those purposes

(3) For the purposes of this Act “injury” means, in relation to any worker, any physical or mental injury that results from an accident and includes the aggravation, acceleration, exacerbation, infection, recurrence, or deterioration of a pre-existing injury.

Annexes

(4) Provision may be made by regulations for extending the meaning of “accident” or “injury” for the purposes of this Act.

.Accidents deemed to arise out of and in the course of a worker's employment

6. For the purposes of this Act an accident shall be deemed to arise out of and in the course of a worker's employment—

(a) notwithstanding that the worker was at the time of the accident acting in contravention of any written law applicable to the worker's employment, or of any orders given by or on behalf of the worker's employer, or that the worker was acting without instructions from the employer, if—

(i) the accident would have been deemed so to have arisen had the act not been done in contravention as aforesaid or without instructions from the employer, as the case may be; and (ii) the act was done for the purposes of and in connection with the employer's trade or business.

(b) If the accident happens to the worker—

(i) while the worker is travelling by way of transport provided or authorized by the employer directly between the place of work and the worker's place of residence by a route which, having regard to all the circumstances, was a reasonable one for the worker to take; **(iA) while the worker is travelling on a route directly between the place of residence or stay and the place of work, otherwise than by way of transport provided by or authorised by the employer, by a route which, having regard to all the circumstances, was a reasonable one for the worker to take;** (ii) while the worker is travelling directly between the place of work and any premises to which the worker normally travels for a meal, rest or refreshment during a temporary interruption of the work by such route as aforesaid; (iii) while the worker is travelling directly between the place of work and any premises (not being his place of residence) to which the worker has the right of access by virtue of the worker's employment by such route as aforesaid;

Provided that if the accident under subsection (b) occurs during any interruption of ,or deviation from, the insured person's journey made for any of the purposes stipulated in the same sub-section, the accident shall not be deemed to arise out of and in the course of the employment

Provided further that the provision in subsection (iA) shall come into force not earlier than three years from the date of the first implementation of this Act

(c) if the accident happens to the worker during a temporary interruption of the work for a meal, rest or refreshment, and the accident would have been deemed so to have arisen had it happened at the worker's place of work, and happens —

(i) on premises occupied by the employer; or

(ii) on premises to which the worker has right of access, during that temporary interruption of the work, by virtue of the worker's employment;

(d) if the accident happens to the worker in or about any premises at which the worker is for the time being employed for the purposes of the employer's trade or business, and happens while the worker is taking steps, on an actual or supposed emergency at those premises to rescue, succour or protect persons who are, or are thought to be or possibly to be, injured or imperilled, or to avert or minimize serious damage to property; or

(e) if the accident would not be, apart from this paragraph, an accident arising out of the worker's employment and where

(i) the accident arises in the course of the employment;

(ii) the accident is caused by another person's misconduct, sky-larking or negligence, or by steps taken in consequence of any such misconduct, skylarking or negligence, or by the behaviour or presence of an animal (including a bird, fish or insect), or is caused by or consists in the worker being struck by any object.

Occupational diseases

7-(1) for the purposes of this Act “occupational disease” means, in relation to any worker, a disease which is due to the nature of any employment by virtue whereof the worker is a worker and includes any occupational disease identified by- regulations made under this Act.

(2) For the purposes of this Act “illness” means, in relation to a worker, an illness that results from an occupational disease and includes the aggravation, acceleration, exacerbation, recurrence or deterioration of a pre-existing illness.

Workers

8-(1). Subject to the following provisions of this section, for the purposes of this Act “worker” means-

- (a) a person who is gainfully employed in Vanuatu under a contract of service but does not include an outworker ~~or a domestic worker~~;
- (b) a person belonging to the military forces in Vanuatu other than such person while engaged on military duty in a foreign country;
- (c) a person who is gainfully employed in Vanuatu in the service of the Government of Vanuatu, including the police force and prison service;
- (d) a person who is a member of a co-operative society and who is gainfully employed by that society;
- (e) a person who is gainfully employed under a contract of service outside Vanuatu, who is ordinarily resident in Vanuatu and who is so employed by an employer having a place of business in Vanuatu, or by the Government of Vanuatu; a person who is ordinarily resident in Vanuatu and who is gainfully employed under a contract of service entered into in Vanuatu as the master or a member of the crew of any vessel, or as the captain or a member of the crew of any aircraft, and the owner or charterer of which has a place of business in Vanuatu.

(2) A person shall not be treated as a worker for the purposes of this Act by virtue of any employment if—

- (a) the worker is employed by his or her spouse in that employment; or
- (b) the employment is employment of a casual nature and the worker is employed otherwise than for the purposes of the employer’s trade or business.

(3) A person shall not be treated as a worker by virtue of his or her employment as —

- (a) a member of the staff of a diplomatic mission of any State or as a member of a consular post;
- (b) a representative, officer or servant of the Government of any country other than Vanuatu;
- (c) a representative, officer or servant of any international organisation or any organ thereof or
- (d) a representative at any conference convened in Vanuatu by an international organisation.

(4) Regulations may provide for excluding from, or including within, the definition of worker for the purposes of this Act any description of person or class of persons.

Employers

9-(1) Where a person who is a worker of any description is employed otherwise than under a contract of service the person’s employer shall, for the purposes of this Act, be taken to be-

- (a) such person as may be prescribed in relation to a worker of that description; or
- (b) the Government of Vanuatu or the public, statutory, or local authority or body or persons responsible for paying the remuneration payable in respect of the employment by virtue whereof the worker is such a worker.

(2) Where a worker is employed by a sub-contractor who is not for the time being registered as an employer under the National Provident Fund Act, the principal contractor shall be deemed to be the workers employer for the purposes of this Act.

Earnings

10-(1) For the purposes of this Act “earnings” includes any remuneration or profit paid or payable in respect of any employment.

(2) Provision may be made by regulations that, in determining the earnings of any person for the purposes of this Act, payments of a particular class or description made or falling to be made to that person shall be disregarded to such extent as may be prescribed.

(3) Regulations under subsection (2) may, in particular, provide that, in determining the earnings of a worker for the purposes of this Act, account shall be taken, to such extent as may be prescribed, of the estimated value of any quarters, board, residence or other allowance or benefit provided or granted by the worker’s employer in respect of the employment otherwise than in money.

Relevant earnings

11(1) For the purposes of this Act, where the amount of compensation in respect of an accident is required by this Act to be calculated by reference to the relevant earnings of any person, the relevant earnings shall be ~~taken to be such amount as, in the opinion of the Board, taking into account the earnings of that person in respect of such period as the Board deems proper, represents the person’s~~

~~normal earnings as a worker or a self-employed person (or where at the date of the accident the person was employed both as a worker and as a self-employed person, the person's normal earnings as a worker and as a self-employed person), calculated at an average weekly rate, at or at about the date of the accident; and different periods may be so taken into account in respect of earning as a worker and earnings as a self-employed person~~ **calculated at an average daily rate equal to one-thirtieth of the average monthly earnings determined by dividing the sum of the insurable earnings during the continuous period of 6 months immediately preceding the month in which the employment injury occurred by the number of months for which such contributions were paid or were payable.**

(2) The amount of a person's earnings in respect of any period taken into account for the purposes of subsection (1) shall be calculated or estimated in such manner and on such basis as the Board deems proper for the purpose of making a fair and reasonable assessment under that subsection.

(3) Without prejudice to subsection (2), where the Board considers that it is necessary so to do for the purpose of making a fair and reasonable assessment under subsection (1) of the normal earnings of a person in respect of any employment at or at about the date of the accident, the Board may take into account such earnings as appear to it may reasonably have been expected to be derived by that person from that employment in respect of such period subsequent to the date of the accident as the Board deems proper.

PART II- THE WORKERS COMPENSATION BOARD

Establishment of the Board

12. There is hereby established a board to be called the Workers Compensation Board, which shall be a body corporate with perpetual succession and a common seal, with the capacity to enter into contracts and to sue and be sued in its corporate name, and with power to acquire, hold and dispose of real and personal property, raise secured loans and generally to do all such acts and things as are necessary for or incidental to the performance of its functions under this Act or any other written law.

Composition of the Board

13-(1) The Board shall consist of seven members appointed by the Minister, **who shall be**

(a) Two persons nominated by the President of the Vanuatu Chamber of Commerce on the advice of the Council of the Chamber of Commerce,

(b) Two persons representing employees to be elected by ~~the National Union of Labour and the Public Service Association respectively,~~ a registered trade union or unions

(c) Two persons representing the government nominated by the Minister after consultation with the Department of Labour ~~Ministries of Internal Affairs~~ and the Ministry of Health respectively, and

(d) The General Manager as an ex-officio member.

~~three of whom are to be representatives of Government, employers and workers respectively, and such other persons as, in the Minister's opinion, have experience and expertise in the areas covered by the functions of the Board or in legal, commercial, insurance, business or administration matters. Provided that, in making his or her appointments, the Minister shall ensure that the Board includes representatives of both men and women. and youth~~ **Provided further, in inviting nominations from any organization, the Minister shall ensure that he or she receives the names of persons sufficient to enable him or her to make a choice as to the persons to be appointed to the Board.**

(2) ~~The Minister~~ **Board** shall ~~appoint~~ **elect** one of the members of the Board to be the Chairperson of the Board and another member of the Board to be the Deputy Chairperson of the Board, and if for any reason the Chairperson is absent or unable to act, or the office of Chairperson is vacant, the Deputy Chairperson may exercise all or any of the functions of the Chairperson under this Act.

(3) Members of the Board shall be appointed for a term of three years or for such shorter period as the Minister may in any case determine, but shall be eligible for reappointment.

(4) If any member of the Board dies or resigns, or if any member's office is vacated in any way, before the expiration of the term for which the member was appointed, the Minister may appoint another person to complete the unexpired portion of the term of office of that member **in the manner stipulated in this section**

(5) A member of the Board wishing to resign from the Board shall do so by notice in writing addressed to the Minister.

Meetings of the Board

14- (1) The Board shall meet as often as may be necessary or expedient, and meetings shall be held at such places and times as the Chairperson may determine. Provided that not more than two months shall elapse between one meeting and the next.

(2) Where not less than four members of the Board, by notice in writing signed by them and addressed to the Chairperson, request that a meeting be held for any purpose specified in the notice, the Chairperson shall convene a meeting of the Board within seven days of the receipt of the notice.

Procedure at meetings of the Board

15-(1) The quorum for a meeting of the Board shall be four members.

(2) The Chairperson, or in his or her absence the Deputy Chairperson, shall preside at meetings of the Board.

(3) If both the Chairperson and Deputy Chairperson are absent from any meeting of the Board, the members present at the meeting shall elect one of their members to act as Chairperson at the meeting.

(4) The decisions of the Board shall be by a majority of votes and, in addition to an original vote, in any case where the voting is equal, the person presiding at the meeting shall also have a casting vote.

(5) The Board may co-opt any one or more persons to attend any meeting of the Board for the purpose of assisting or advising the Board, but such co-opted member shall not have the right to vote and shall not be deemed to be a member of the Board for the purpose of constituting a quorum.

(6) No act or proceeding of the Board shall be invalidated or questioned only on account of the existence of a vacancy among the members of the Board.

(7) All acts done by a person acting in good faith as a member of the Board shall be as valid as if the person were a member of the Board notwithstanding that some defect in the person's appointment be discovered afterwards.

(8) Subject to the foregoing provisions of this section, the Board may regulate its own procedure.

Seal of the Board

16. The common seal of the Board shall not be affixed except pursuant to a resolution of the Board and in the presence of the Chairperson or Deputy Chairperson and one other member of the Board; and the affixing of the seal of the Board shall be authenticated by their signatures.

Service of documents on the Board

17 .The service of any document upon the Board shall be deemed to have been effected if it has been delivered, or sent by registered post, to the ~~Chief Executive~~ **General Manager** of the Board at the principal office of the Board.

General functions of the Board

18-(1)The Board shall have such functions in relation to the administration of this Act as are conferred upon it by this Act, and shall have such further powers as are not inconsistent with this Act and as are reasonably necessary for the effective performance of its functions.

(2) The Board shall for the purposes of this Act, liaise and co-operate with Government departments, local authorities, employers, workers, organizations representing employers or workers, and persons and bodies concerned in promoting the prevention of work related accidents or occupational diseases.

(3) The functions of the Board shall include —

(a) stimulating and maintaining interest in the prevention of work related accidents, occupational diseases and of personal injuries or illnesses caused by such accidents or diseases, by means of education and publicity;

(b) sponsoring and supporting courses and campaigns in connection with the prevention of such accidents and occupational diseases;

(c) sponsoring and fostering organizations and groups concerned with the prevention of such accidents and occupational diseases;

(d) sponsoring and supporting research and investigations into ways of reducing the incidence and severity of such accidents and diseases, and of minimizing the related injuries and illnesses;

(e) supporting and assisting the Department of Labour in its administration of the ~~Occupational Health and Safety Act~~ **Health and Safety at Work Act** and ~~Health Act~~ relating to the prevention of such accidents and

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occupational diseases, including providing the Department with information regarding work related accidents and occupational diseases that come to the Board's attention

Chief Executive of the Board

19 (1) There shall be a ~~Chief Executive~~ **General Manager** of the Board, who shall be appointed by the Board with the approval of the Minister.

(2) A person shall not be appointed to or act in the office of ~~Chief Executive~~ **General Manager** unless the person is suitably qualified and has extensive experience as a manager at a senior level.

(3) Except with the written consent of the Board, the ~~Chief Executive~~ **General Manager** shall devote the whole of his or her service to the Board and shall not occupy any other office or employment, whether remunerated or not, but may act as a member of any board, committee or commission established by the Government.

Officers and agents of the Board

20-(1) The Board may appoint and employ such other officers and such agents as are, in the opinion of the Board, necessary for the purpose of carrying out the provisions of this Act.

(2) The Board shall have power to appoint inspectors for the purposes of this Act from among its officers and may, with the consent of the Minister, appoint any agent of the Board under subsection(1) as such inspector.

Committees of the Board

21(1) The Board may appoint a committee or committees consisting of two or more persons, who may or may not be members of the Board, to advise the Board as to the exercise of any of its functions under this Act or to exercise any of those-functions as may be delegated to the committee or committees under section 22.

(2) Subject to any general or special directions of the Board, any such committee may regulate its own procedure.

Delegation of functions of the Board

22 (1) The Board may, by a resolution of the Board, generally or particularly delegate to any agent of the Board any of its functions under this Act relating to the determination of claims and questions, the assessment and payment of compensation and the collection and recovery of contributions and surcharges, other than the power to make any regulations in relation to any of those matters.

(2) The Board may, by a resolution of the Board, generally or particularly, delegate all or any of its functions under this Act, other than the power to make any regulations, to-

- (a) any member of the Board;
- (b) any committee appointed by the Board under section 21;
- (c) any officer of the Board.

(3) A person or committee to whom any of the functions of the Board have been delegated under this section may, subject to any conditions which may have been specified by the Board at or after the time of delegating such functions to that person or committee, exercise those functions in the same manner and to the same extent and effect as if they had been conferred on that person or committee by this Act.

(4) A person or committee to whom any functions of the Board have been delegated under this section shall be presumed, in exercising such functions and in the absence of evidence to the contrary, to be doing so in accordance with the terms of the delegation.

(5) A delegation under this section shall be revocable at will and shall not preclude the Board from exercising any of its functions which have been delegated.

(6) A delegation under this section shall continue in force notwithstanding any change in the composition of the Board since the date on which it was made.

Remuneration and allowances, etc.

23 (1) Members of the Board, any person co-opted under subsection (5) of section 15, the ~~Chief Executive~~ **General Manager** and other officers of the Board shall be paid such remuneration and allowances as are determined by the Board with the approval of the-Minister of Finance.

(2) The Board may pay to any member of a committee appointed by the Board under section 21 such remuneration and allowances as are determined by the Board with the approval of the Minister of Finance.

(3) The Board may pay to any agent of the Board such fees and allowances as are determined by the Board with the approval of the Minister of Finance.

Protection from personal liability

24. No matter or thing done, and no contract entered into, by or on behalf of the Board shall, if the matter or thing was done or the contract entered into *bonafide* for the purpose of this Act, subject any member of the Board, any member of a committee appointed by the Board under Section 21, or any officer or agent of the Board personally to any action, liability, claim or demand in respect thereof.

Board to comply with Government policy

25(1) In the performance and exercise of its functions and powers, the Board shall comply with any directions relating to the policy of the Government that are given by the Minister to the Board by notice in writing.

(2) Where a notice is given to the Board under subsection (1) of this section, the Minister shall, as soon as practicable after the giving of the notice, publish a copy of the notice in the Gazette.

PART III - COMPENSATION FOR INCAPACITY FOR WORK

General provisions as to compensation for incapacity to work.

26-(1) Subject to subsection (2), for the purposes of this Part —

(a) “appropriate daily rate” means in relation to any claimant such amount as is equal to the quotient of two-thirds of the worker’s relevant earnings divided by the number of days in the week which, in the worker’s case, are working days (“week” for this purpose meaning a period of seven days beginning with midnight between Sunday and Monday); and

(b) “working day” means —

(i) where the claimant was a worker at the date of the relevant accident, other than a worker by virtue of employment of a casual nature, a day on which the worker would have worked as a worker but for the relevant injury; and

(ii) in any other case where the worker was ordinarily gainfully employed at the date of the accident, any day other than a Sunday.

(2) Regulations may make provisions to the days which, for the purposes of this Part, are or are not to be treated as working days.

Compensation for incapacity for work

27(1) Subject to the provisions of this Act and subsection (2) hereof: a worker who suffers personal injury caused by an accident against which the worker is insured under this Act shall be entitled to be paid by the Board in respect of any day of incapacity, which in the worker’s case is also a working day, compensation for incapacity for work by way of an allowance at the appropriate daily rate.

(2) Notwithstanding subsection (1) the employer shall pay to the injured worker the workers normal earnings for the day on which the accident occurred and for the working day immediately following the day on which the accident occurred and the worker shall not be entitled to compensation for those days. Provided that if the incapacity lasts longer than the period prescribed in this subsection compensation shall be payable in respect of the total period of incapacity **other than the days for which the employer has paid the worker his normal earnings.**

Determination of days of incapacity for work.

28-(1) Subject to the provisions of this Act, for the purpose of determining the entitlement of any worker to compensation for incapacity for work, a day shall be treated as a day of incapacity for work if: and only if: the worker proves, in such manner as the Board shall require, that as a result of the accident the worker is incapable of work by reason of some specific injury or bodily or mental disablement or is deemed, in accordance with regulations, to be so incapable.

(2) A day shall not be treated as a day of incapacity for work

(a) if, subject to subsection (2) of section 27, it is a day in respect of which the worker is disqualified under this Act for receiving such compensation; or

(b) if on that day the worker does any work by way of gainful employment, other than work which is undertaken under medical supervision as part of treatment while the worker is a patient in any hospital or similar institution and the worker's earnings in respect of that work appear to the Board to be nominal.

(3) Subject to subsection (2), regulations may make provision as to days which, for the purpose aforesaid, are or are not to be treated as days of incapacity for work.

(4) For the purposes of this section, a worker who is not incapable of work as aforesaid by reason of the injury shall be deemed to be so incapable of work for any day on which-

(a) the worker is under medical care in respect of the injury;

(b) it is certified by a registered medical practitioner that by reason of the injury the worker should refrain from work; and

(c) the worker does not work.

(5) Where the Board is satisfied that the services of a registered medical practitioner are not readily available in the district in which the worker is resident, subsection (4) shall apply as if the reference in paragraph (b) thereof to a registered medical practitioner included a reference to a registered nurse; and the reference in paragraph (a) to medical care shall be construed accordingly.

PART IV - COMPENSATION FOR PERMANENT DISABLEMENT

General provisions as to compensation for permanent disablement

29. For the purposes of this Part-

(a) there shall be deemed not to have been a loss of faculty when the extent of the resulting disablement, if assessed, would amount to less than one *per cent*;

(b) references to loss of physical faculty shall include disfigurement, whether or not accompanied by any loss of faculty and

(c) "the appropriate percentage" means in relation to any claimant, such percentage as is equal to the assessed extent of the disablement resulting from the accident.

Compensation for permanent disablement

30-(1) Subject to the provisions of this Act, where a worker suffers personal injury caused by an accident against which the worker is insured under this Act and suffers as a result of the accident from permanent loss of physical or mental faculty such that the assessed extent of the resulting disablement amounts to not less than one *per cent*, then the worker shall be entitled to be paid by the Board compensation for permanent disablement in accordance with the following provisions of this section.

(2) Subject to subsections (3) and (5), where the, assessed extent of the resulting disablement is not less than twenty-five *per cent*, compensation for permanent disablement shall be by way of periodic payments payable from and including the date of disablement for a period not exceeding five years at the rate of the appropriate percentage of two-thirds of the worker's relevant earnings **payable from and including the date of disablement**

(a) where the permanent disablement has been assessed provisionally for a limited period, for that period, or

(b) where the permanent disablement has been assessed finally, for life.

Provided that the amount payable shall not exceed each week or such other sum as may be prescribed by regulation.

(3) Subject to subsection (5) where a worker entitled to periodic payments payable in accordance with subsection (2) has suffered a loss of earning capacity by reason of the loss of faculty and the worker was under the age of twenty one years at the date of the accident, then, if on the worker attaining the age of twenty one years the periodic payment so payable to the worker are payable at a weekly rate of less than such amount as is equal to the appropriate percentage of two-thirds of the worker's estimated notional normal earnings, the periodic payments shall, as from the date on which the worker attained that age, be payable at a weekly rate equal to that amount. Provided that the amount payable shall not exceed each week or such other sum as may be prescribed by regulation.

~~(4) Notwithstanding subsection (2), the Board may allow a worker entitled to periodic payments under this section to capitalise up to 25% of the total sum due to the worker and may pay to the worker the amount so calculated by way of a lump sum and the balance due to the worker by way of periodic payments shall be reduced accordingly.~~

(5) ~~(4)~~ Subsection (3) shall not apply to such case ~~(4)~~ or class of cases as may be prescribed by regulation.

Sub-section(5) to be revised on actuarial advice

~~(6)~~ (5) Where the assessed extent of the resulting disablement is less than twenty-five *per cent*, compensation for permanent disablement shall be by way of a lump sum equal to the total amount of the periodic payments which would be payable to the worker in respect of the period of five years commencing on the date of disablement if the worker were entitled to periodic payments at the weekly rate of the appropriate percentage of two-thirds of the worker's relevant earnings. Provided that the amount payable shall not exceed or such other sum as may be prescribed by regulation.

Principles of assessment of disablement

31(1) For the purposes of this Act, the extent of disablement resulting from the loss of faculty shall be assessed by reference to the disabilities incurred by the worker as a result of that loss of faculty in accordance with the general principles set out in this section and in any regulations made there under.

(2) Subject to the following provisions of this section, the disabilities to be taken into account shall be all disabilities incurred by the worker as a result of the loss of faculty (whether or not involving loss of earning capacity or additional expense) to which the worker may be expected, having regard to the worker's physical and mental condition at the date of the assessment as compared with a person of the same age and sex whose physical and mental condition is normal.

(3) The assessment shall be made without reference to the particular circumstances of the worker other than age, sex and physical and mental condition.

(4) An assessment shall state the degree of disablement in the form of a percentage not exceeding a total of one hundred *per cent*.

(5) If, on any assessment of the extent of a worker's disablement, the condition of the worker is not such, having regard to the possibility of changes therein (whether predictable or not), as to allow of a final assessment for the time being, a provisional assessment shall be made; and in that event a final assessment shall be made not later than the expiration of the period of three years commencing on the date of disablement.

(6) A provisional assessment shall specify the period taken into account by the assessment, being a period commencing on the date of disablement and ending on or before the expiration of the said period of three years as it may seem reasonable to allow to elapse before a final assessment is made, having regard to the worker's condition and the possibility of such changes as aforesaid.

(7) Where the relevant loss of faculty became permanent after the date of the accident, the assessment shall specify the date on which it became permanent, being the earliest date on which the disabilities incurred by the worker as a result of the loss of faculty could reasonably have been taken into account under subsection (2) as being disabilities of the description specified in that subsection.

(8) Provision may be made by regulations for further defining the principles on which the extent of disablement is to be assessed, and such regulations may in particular make provision-

(a) for directing that a prescribed loss of faculty shall be treated as resulting in a prescribed degree of disablement;

(b) as to the extent (if any) to which any disabilities are to be taken into account where they are disabilities which, though resulting from the loss of faculty, also result, or without the accident might have been expected to result, from a cause other than the accident

Compensation for permanent disablement where the extent of disablement has been provisionally assessed

32. (1) In any case where a provisional assessment is made under section 31 of the extent of a worker's disablement, section 30 shall have effect as modified by the following provisions of this section.

(2) Where there is entitlement to compensation for permanent disablement by way of periodic payments in consequence of both the provisional and final assessments of the extent of the worker's disablement

(a) such compensation for the period taken into account by the provisional assessment in accordance with subsection (6) of section 31 shall be calculated having regard to the extent of the worker's disablement as provisionally assessed and

(b) such compensation for any period thereafter shall be calculated having regard to the extent of the worker's disablement as finally assessed.

Sub-section (3) to be revised on actuarial advice

(3) Where there is entitlement to compensation for permanent disablement by way of a lump sum in consequence of both the provisional and final assessments of the extent of the worker's disablement-

(a) the compensation in consequence of the provisional assessment shall be a lump sum equal to the total amount of the notional periodic payments referred to in subsection (6) of section 30, which would be payable to the worker for the period taken into account by the provisional

assessment as aforesaid having regard to the extent to the worker's disablement as provisionally assessed;

(b) the compensation in consequence of the final assessment shall be a lump sum equal to the total amount of such notional periodic payments which would be payable to the worker for the period from the expiration of the period referred to in paragraph (a) to the expiration of the period of five years commencing on the date of disablement.

(4) Where there is entitlement to compensation for permanent disablement by way of periodic payments in consequence of the provisional assessment of the extent of the worker's disablement and by way of a lump sum in consequence of the related final assessment —

(a) the compensation by way of periodic payments shall be calculated as provided in paragraph (a) of subsection (2); and (b) the compensation by way of a lump sum shall be calculated as provided in paragraph (b) of subsection (3).

(5) Where there is entitlement to compensation for permanent disablement by way of a lump sum in consequence of the provisional assessment of the extent of the worker's disablement and by way of periodic payments in consequence of the related final assessment

(a) the compensation by way of lump sum shall be calculated as provided in paragraph (a) of subsection (3); and (b) the compensation by way of periodic payments shall be calculated as provided in paragraph (7) of subsection (2).

Increase of compensation for permanent disablement where constant attendance is needed

33(1) Subject to subsection (2), where compensation for permanent disablement by way of periodic payments is payable in respect of an assessment of one hundred *per cent*, then, if as the result of the relevant loss of faculty the beneficiary requires for the time being constant attendance, being entirely dependent on such attendance for the necessities of life and likely to remain so for a prolonged period, the rate of the periodic payments shall be increased by twenty-five *per cent*.

(2) An increase of periodic payments under this section shall not be payable for any period during which the beneficiary is undergoing medical or other treatment as an inpatient in a hospital.

PART V - COMPENSATION IN THE EVENT OF DEATH

General provisions as to compensation in the event of death

34.(1) The following provisions of this section shall have effect for the purposes of this Part.

(2) Subject to subsection (3), "the maximum amount" means-

(a) where the deceased worker was entitled to compensation for permanent disablement and the assessed extent of the disablement resulting from the relevant loss of faculty amounted to one hundred *per cent*, such amount as is equal to the rate at which such compensation was payable at the workers death; and

(b) in any other case, such amount as is equal to the rate at which compensation for permanent disablement would have been payable to the deceased worker in respect of an assessment of one hundred *per cent*. Provided that the amount payable shall not exceed each week or such other sum as may be prescribed by regulation.

(3) In calculating any amount for the purposes of subsection (2) no account shall be taken of any increase in periodic payments under section 33 which was or would have been payable to the deceased worker.

(4) A child shall be treated as included in the family of the deceased worker if, and only if: at the date of the death of the worker-

(a) the child was being wholly or mainly maintained by the deceased worker, or

(b) in any other case, the deceased worker was liable to maintain the child, wholly or mainly.

(5) A deceased worker shall not be deemed to have been- (a) wholly maintaining another person unless the worker normally contributed the whole of the actual cost of that other person's maintenance; or

(b) mainly maintaining another person unless the worker normally contributed more than one-half of the actual cost of that other person's maintenance; and in determining whether or not a person has been wholly or mainly maintained by a deceased worker any temporary interruption or reduction of the worker's contribution shall be disregarded.

(6) A person shall not be deemed to have been entitled to be wholly or mainly maintained by a deceased worker unless-

(a) that worker was liable to contribute towards the maintenance of that person under an order of a court, trust or agreement;

- (b) reasonable steps have been taken to enforce the order, trust or agreement, as the case may be, by the person entitled to receive payments there under; and
- (c) that worker would, if he had contributed towards the maintenance of that person in compliance with the order, trust or agreement, as the case may be, have been deemed by virtue of subsection (4), other than paragraph (7) thereof: to have been wholly or mainly maintaining that other person; and the reference in paragraph (b) of subsection (4) to the liability of the deceased worker to maintain a child shall be construed accordingly.
- (7) Where a person was not wholly or mainly maintained by the deceased worker at the time of death but was so maintained by the worker at the date of the relevant accident, the Board may treat that person as having been wholly or mainly maintained by the worker at the date of death.
- (8) A posthumous son or daughter of a deceased worker shall be deemed to have been wholly or mainly maintained by the worker at death.
- (9) Where a worker suffers personal injury caused by accident and subsequently dies by suicide as the result of a state of mind caused by the accident, the worker shall be deemed to have died as the result of the injury.
- (10) "Parent" —
- (a) in relation to an adopted person, means the adoptive parents;
- (b) in relation to an illegitimate person, does not include the person's father.
- ~~(11) Any worker may by memorandum executed in the prescribed manner nominate a person or persons to receive in the workers or their own right such portion of the amount payable by way of compensation out of the Worker's Accident Compensation Fund under the provisions of section 74 on the death of the worker as such memorandum shall indicate, and any worker who does not nominate such a person may be required by the Board to declare in writing a desire not to do so.~~
- ~~(12) If at the time of the death of a worker there is no person nominated under subsection (11) of this section the Board, on being notified of the death of the worker, shall take such action as may be prescribed by regulation.~~
- ~~(13) Regulations may make provision as to the forms and procedures to be followed for the purposes of subsections (11) and (12) of this section.~~

Funeral benefit.

34 A (1) If an insured person dies as the result of personal injury caused by an accident against which he or she was insured under this Act or while he is in receipt of permanent disablement benefit under this Act, a funeral benefit of an amount as prescribed by the Minister from time to time by regulations shall be paid to

one or more of the following persons:

- (a) the widow or the widower;
- (b) the eldest surviving child
- (c) the parent or parents.

(2) Where there are no such persons as mentioned in sub-section (1), any other person who has actually incurred the expenditure on the funeral shall be paid the expenses of the funeral of the deceased insured person or the amount as prescribed by the Minister under subsection (1), whichever is the lesser: Provided that the claim for such benefit shall be made within three months of the death of the insured person or within such extended period as the Board may allow: Provided further that notwithstanding the above conditions, in any disagreement over the question of to whom the payment of funeral benefit should be made, the decision of the General Manager shall be final.

Compensation to widow in the event of death

35. (1) Subject to the provisions of this Act, where a man dies as the result of personal injury caused by an accident against which he was insured under this Act his widow shall be entitled to be paid by the Board compensation by way of periodic payments payable from and including the date of his death for a period of five years **at the weekly rate of sixty per cent of the maximum amount from and including the date of his death for life or until her remarriage or cohabitation with another person as a spouse until her remarriage, whichever is earlier, at the weekly rate of sixty per cent of the maximum amount.**

(2) No periodic payments shall be payable under this section to a widow by reason of the death of her husband unless —

- (a) she was residing with him at his death; or
- (b) she was, at his death, being, or entitled to be, wholly or mainly maintained by him.

~~(3) No periodic payments shall be payable under this section to a widow for any period during which she is ordinarily gainfully employed for more than thirty hours a week.~~

Compensation to widower in the event of death

36. (1) Subject to the provisions of this Act, where a woman dies as the result of personal injury caused by an accident against which she was insured under this Act, her widower shall be entitled to be paid by the Board compensation by way of periodic payments payable ~~from and including the date of her death for a period of five years or~~ **at the weekly rate of sixty per cent of the maximum amount from and including the date of her death for life or until his remarriage or cohabitation with another person as a spouse**

~~until his remarriage, whichever is earlier, at the weekly rate of sixty per cent of the maximum amount.~~

(2) No periodic payments shall be payable under this section to a widower by reason of the death of his wife unless-

(a) he was residing with her at her death; or

(b) he was at her death, being or entitled to be, wholly or mainly maintained by her.

~~(3) No periodic payments shall be payable under this section to a widower for any period during which he is ordinarily gainfully employed for more than thirty hours a week.~~

Compensation in the event of death to children of the deceased's family

37(1) Subject to the provisions of this Act, where a worker dies as the result of personal injury caused by an accident against which the worker was insured under this Act, each person who, at the death of the worker, was a child of the worker's family shall be entitled to be paid by the Board compensation by way of periodic payments payable from and including the date of the death of the deceased worker ~~for a period of five years or~~ until that person attains the age of twenty-one years, ~~whichever is earlier,~~ at the weekly rate of twenty *per cent* of the maximum amount or, where the deceased was the sole parent or sole surviving parent, at the weekly rate of forty *per cent* of the maximum amount.

Provided that in the case of a child referred to in paragraph (b) of the definition of a child in section 2 the periodic payment shall be payable so long as he or she is incapable of supporting himself or herself

(2) No periodic payments shall be payable under this section to any person

(a) upon the marriage of that person

(b) for any period during which that person is ordinarily gainfully employed for more than thirty hours a week.

(3) For the purposes of subsection (1), a person shall be deemed to be permanently incapable of self-support if, and only if, the person is incapable of supporting himself or herself by reason of physical or mental infirmity and is likely to remain so incapable for the rest of the person's life.

(4) Where any child becomes entitled to compensation payable under this Act the Board shall take such action as it considers appropriate to ensure that such compensation is applied only for the maintenance, education, advancement or benefit of that child.

Compensation to other dependants in the event of death

38(1) Subject to provisions of this Act and to such conditions as may be prescribed by regulations, where a worker dies as the result of personal injury caused by an accident against which the worker was insured under this Act, any relative of the deceased worker who was, at the death of the worker, being wholly or mainly maintained by the worker, shall be entitled to be paid by the Board compensation by way of periodic payments payable from and including the date of the death of the worker ~~for a period of five years or until the death of such relative whichever is earlier, the weekly rate of forty per cent of the maximum amount.~~ **for the following periods and at the following rates:**

(a) to the parent or parents jointly sixty percent of the maximum amount for life, subject to the provisions of this section , and

(b) to the brother or sister, twenty per cent each of the maximum amount until that person attains age 21, subject to the provisions of this section

(2) Where, as the result of the death of the worker

(a) the primary dependants of the deceased worker are entitled to compensation by way of pensions under this Part; and

(b) the aggregate amount of the weekly rates of those pensions would, but for section 39, be more than the maximum amount; no periodic payments shall at any time be payable under this section as a result of the death of the worker, notwithstanding that the aggregate amount of those weekly rates may become less than the maximum amount.

- (3) No periodic payments shall be payable under this section to any person-
- (a) upon the marriage of the person; or
 - (b) for any period during which the person is ordinarily gainfully employed for more than thirty hours a week.
- (4) Where a relative is not or has not been entitled to compensation by way of periodic payments under the foregoing provisions of this Part by reason of the death of any worker as a result of personal injury caused by an accident against which the deceased worker was insured under this Act, then, if the deceased worker was at death, or but for the relevant accident would have been at that date, contributing towards the maintenance of any relative to any extent, the Board, if it considers it fair and reasonable so to do, may pay to such relative compensation in a sum prescribed by regulation; Provided that where compensation is paid by the Board under this subsection to two or more relatives of the deceased worker, the total amount of the compensation shall not exceed the sum prescribed.
- ~~(5) In this section "relative" means, in relation to any deceased worker, any parent and such other person as may be prescribed by regulation.~~

Proportionate reduction of weekly rates of periodic payments amounting in the aggregate to more than the maximum amount

39(1) Where periodic payments are payable for any period under this Part of this Act as a result of the death of the worker

- (a) to, and only to, the workers primary dependants; and
 - (b) the aggregate amount of the weekly rates of those periodic payments would, but for this subsection, exceed the maximum amount; the weekly rate of each periodic payments shall, for that period, be reduced by such proportion of the excess amount as the amount of that weekly rate bears to that aggregate amount.
- (2) Where periodic payments are payable for any period under this Part of this Act as a result of the death of the worker
- (a) to the worker's primary dependants;
 - (b) to persons who are not the worker's primary dependants; and
 - (c) the aggregate amount of the weekly rates of those periodic payments would, but for this subsection, exceed the maximum amount; the weekly rate of each periodic payments payable to the persons who are not primary dependants of the deceased worker shall, for that period, be reduced by such proportion of the excess amount as the amount of the weekly rate of each periodic payment payable to those persons bears to the aggregate amount of the weekly rates of all the periodic payments payable to those persons; and where there is only one periodic payment payable to a person who is not a primary dependant of the deceased worker, the weekly rate of that periodic payment shall be reduced by an amount equal to the excess amount. -
- (3) Where periodic payments are payable for any period under this Part of this Act as a result of the death of the worker
- (a) to, and only to, persons who are not the workers primary dependants, and
 - (b) the aggregate amount of the weekly rates of those periodic payments would, but for this subsection, exceed the maximum amount; the weekly rate of each periodic payment shall, for that period, be reduced by such proportion of the excess amount as the amount of that weekly rate bears to that aggregate amount.

PART VI- COMPENSATION IN RESPECT OF MEDICAL AND OTHER EXPENSES

Expenses of transport to hospital etc., of victim of an accident immediately following the accident

40 (1) Where a worker suffers personal injury caused by an accident at the worker's place of employment which necessitates the worker's immediate removal following the accident to a hospital or to any other place (including the worker's residence) in Vanuatu for medical examination or treatment, the worker's employer shall forthwith, at the employer's expense, provide, or arrange for the provision of, such transport as may be necessary and suitable for the purpose.

(2) The Board shall, as soon as may be- (a) reimburse an employer in respect of any expenses reasonably incurred by the employer in the performance of the duty imposed on the employer by subsection (1); or (b) where those expenses have not yet been paid, make such payment as shall be necessary to discharge the liability of the employer to pay those expenses.

(3) Where a worker to whom an accident has happened has been removed as mentioned in subsection (1), the worker's removal shall be deemed to have been necessitated by an injury caused to the worker by the accident.

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(4) No payment shall be made by the Board under this section if the means of transport is provided free of charge.

Travel and other expenses incurred in connection with medical examination or treatment on other occasions, etc.

41 (1) Subject to subsection (2), where a worker suffers personal injury caused by an accident against which the worker is insured under this Act and the Board is satisfied, on the evidence of a registered medical practitioner, that that worker requires medical examination or treatment in respect of the injury or where that worker is required by or under regulations under section 51 to submit to medical examination or treatment, that worker shall be paid by the Board compensation by way of—

(a) a travelling allowance in such sum as the Board deems proper in respect of any expenses reasonably incurred by the worker or on the worker's behalf in travelling between any places in Vanuatu for the purpose of undergoing such examination or obtaining such treatment;

(b) a subsistence allowance in such sum as the Board deems proper in respect of any expenses reasonably incurred by the worker or on the worker's behalf for board and lodging necessarily obtained at or near a place in Vanuatu which the worker has undergone such examination or obtained such treatment; and –

(c) an allowance in such sum as the Board deems proper for loss of remunerative time reasonably incurred by the worker for the purpose of undergoing such examination or obtaining such treatment.

(2) In determining the amount of any allowance as mentioned in paragraph (c) of subsection (1) the Board shall take into account any compensation for incapacity for work payable in respect of the same period for which such an allowance is payable and any remuneration received for that period.

(3) Where the Board is satisfied that the services of a registered medical practitioner are not readily available in the district in which any worker is resident, subsection (1) shall apply as if the reference to a registered medical practitioner included a reference to a registered nurse.

Expenses in respect of medical examination or treatment

42. (1) Except where regulations otherwise provide, where a worker suffers personal injury caused by an accident against which the worker is insured under this Act, there shall be paid by the Board to that worker an allowance in such sum as the Board deems proper in respect of the expenses incurred in connection with any of the matters mentioned in subsection (2) which have been provided or obtained in Vanuatu, being expenses which the Board is satisfied—

(a) on the evidence of a registered medical practitioner, have been reasonably incurred by the worker or on the worker's behalf by reason of the injury; or

(b) have been reasonably incurred by the worker or on the worker's behalf for the purpose of complying with regulations under section 51.

(2) The matters referred to in subsection (1) are

(a) medical examination or treatment, whether in a hospital or at any other place;

(b) in-patient accommodation and maintenance at any hospital, other than accommodation and maintenance in a private ward obtained otherwise than on the directions of the officer-in-charge of the hospital;

(c) attendance as an out-patient at any hospital;

(d) drugs, medicines and dressings;

(dA) physical rehabilitation

(e) the provisions of any artificial limb or aid, and the repair, maintenance and renewal of such limb or aid ~~within the period of five years commencing on the date of the relevant accident;~~ and

(f) any other matter as may be prescribed by regulation.

(3) The fees and charges in connection with any of the matters referred to in subsection (1) which has been provided or obtained in Vanuatu to or by any worker by reason of any personal injury caused by an accident against which the worker is insured under this Act shall be in accordance with such scale as shall be prescribed by regulation, and any claim or demand for an amount in excess of the appropriate amount within that scale shall be null and void to the extent that it is in excess of that appropriate amount.

(4) The provisions of subsection (3) of section 41 shall have effect for the purposes of this section as if for the reference therein to subsection (1) of that section there were substituted a reference to subsection (1) of this section.

(1) Where the Board is of the opinion based on medical advice in any case that medical treatment or rehabilitation which is not available in Vanuatu but which is available in another country within reasonable travelling distance would be of substantial benefit to an insured person who has suffered an accident compensable under this Act, it may pay for or contribute towards the costs (including the costs of travel, accommodation and meals) of that person in obtaining treatment or rehabilitation outside Vanuatu:

Provided that in no case shall the amount paid or contributed by the Board exceed a prescribed amount

2) In applying sub-section (1) the Board shall in each case have regard to the following:

- (a) the needs of the injured worker and his dependants;
- (b) the severity of the injury
- (c) the probability of success of the treatment or rehabilitation
- (d) the extent to which the treatment or rehabilitation will facilitate an earlier return to normal life than otherwise would occur, and
- (e) any other circumstances which the Board considers to be relevant

Expenses in respect of dental treatment, artificial limbs or aids

43. (1) Except where regulations otherwise provide, where a worker suffers personal injury caused by an accident against which the worker is insured under this Act and as a result of the accident suffers damage to natural teeth or to any artificial limb or aid (including spectacles), the worker shall be paid by the Board an allowance in such sum as the Board deems proper for the purpose of defraying the reasonable cost-

- (a) in the case of damage to natural teeth, of repairing the teeth or replacing them by artificial dentures; and
- (b) in the case of damage to an artificial limb or aid, or repairing or replacing the same.

(2) In subsection (1) "spectacles" shall not include contact lenses.

PART VII CLAIMS FOR, AND PAYMENT OF, COMPENSATION

Claims for compensation

44 (1) Except where the Board otherwise directs, it shall be a condition of a person's right to compensation of any description that a claim is made for it in the manner and within the time prescribed by regulation.

(2) Regulations may provide for requiring claimants to furnish to the Board any information and evidence required for the determination of the claim or of any question arising in connection with the claim.

(3) Regulations may make provision with respect to compensation for incapacity for work-

- (a) for permitting, in prescribed circumstances, a claim for such compensation to be made, or to be treated as if made, for a period falling partly after the date of the claim;
- (b) for permitting an award on any such claim to be made for a period after the date of the claim of not more than thirteen weeks (or such shorter period as the Board may in any case direct) subject to the condition that the claimant continues during that period to satisfy the requirements for such compensation;
- (c) for the review of any such award if those requirements are found not to have been satisfied at some time during the period of the award;
- (d) for the disallowance of a person's claim for such compensation on any grounds to be treated as a disallowance of any further claim by that person for such compensation until the grounds of the original disallowance have ceased to exist.

(4) For the purposes of this Act any claim sent by post shall be deemed to have been made on the day on which it was posted.

Payment of compensation

45(1) Subject to the provisions of this Act, provision may be made by regulations as to the time and manner of payment of compensation and as to the information and evidence to be furnished by beneficiaries when applying for payment.

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(2) Regulations under subsection (1) may provide for disqualifying a person for the receipt of compensation if the person fails to make the claim for it within the prescribed time; but any such regulations shall provide for extending, subject to any prescribed conditions, the time within which the claim may be made in cases where good cause is shown for the delay.

(3) Regulations under subsection (1) as to the payment of compensation by way of periodic payments may provide —

(a) for adjusting the commencement and termination of payments of such compensation, or of changes in the rate of such compensation, so that payments are not to be made in respect of periods of less than a week or at different rates for different parts of a week (“week” for this purpose meaning a period of seven days beginning with midnight between Sunday and Monday); and

(b) for the payment of sums on account of the compensation in advance of the making of an award in respect thereof

(4) Where it appears to the Board that a question has arisen as to whether-

(a) the conditions for the receipt of any compensation under an award are or were fulfilled; or

(b) an award ought to be revised in accordance with Part VIII; the Board may direct that payment of the compensation shall be suspended in whole or in part until that question has been determined.

(5) Regulations may provide-

(a) for requiring beneficiaries —

(i) to furnish to the Board any information required for the determination of a question arising in connection with the award;

(ii) to give notice to the Board of any change of circumstances affecting the continuance of the right to compensation or its receipt;

(b) for enabling a person to be appointed to exercise, on behalf of a claimant or beneficiary who is a child; or who may be or become unable for the time being to act, any right or power which the claimant or beneficiary may be entitled to exercise under this Act;

(c) for authorizing a person so appointed to receive and deal with any sum payable by way of compensation on behalf of the claimant or beneficiary;

(d) as to the circumstances in which any compensation which is payable to one person may be paid to another on his or her behalf and

(e) in connection with a person’s death

(i) for enabling a claim for compensation to be made or proceeded with in the person’s name;

(ii) for authorizing payment or distribution of compensation to or amongst persons claiming as the personal representatives, legatees, next-of-kin or creditors of the deceased (or, in cases of illegitimacy of deceased persons, to or amongst others); and

(iii) for dispensing with strict proof of the title of persons so claiming.

(6) In paragraph (e) of subsection (5) “next-of-kin” means the persons who would take beneficially on intestacy.

Beneficiaries outside Vanuatu

This section to be revised on actuarial advice 46 (1) Compensation by way of periodic payments shall not be payable if the beneficiary is at the date of entitlement ordinarily resident outside Vanuatu or ceases to be ordinarily resident in Vanuatu after that date.

(2) Regulations shall provide for the commutation of compensation by way of periodic payments which, but for subsection (1), would be payable to the beneficiary into compensation by way of a lump sum calculated in the prescribed manner. Provided that compensation by way of a lump sum shall not be payable under this section to any widow or widower who is leaving Vanuatu in order to re-marry.

(3) Subject to the provisions of this Act, compensation for incapacity for work shall not be payable for any period during which the beneficiary is not present in Vanuatu unless the beneficiary is, with the consent of the Board, or in accordance with any requirement by or under regulations made under section 51, temporarily absent there from for the specific purpose of undergoing medical examination or obtaining medical treatment in respect of the relevant injury; in which event the Board shall

(a) suspend the payment of the compensation payable for that period; or

(b) pay the same to a person in Vanuatu who has been nominated by or on behalf of the beneficiary to receive payment of the same on the beneficiary’s behalf and who has been approved by the Board

Compensation to be inalienable

47. Subject to the provisions of this Act, every assignment of, or charge on compensation, and every agreement to assign or charge compensation shall be void; and, on the bankruptcy of a beneficiary, the compensation shall not pass to any trustee or other person acting on behalf of creditors.

Overlapping compensation

48. Regulations may provide for adjusting compensation or the condition for its receipt where
- (a) compensation for permanent disablement by way of periodic payments is payable to the beneficiary for any period which includes a day for which the beneficiary is entitled to compensation for incapacity for work as a result of the same accident;
 - (b) compensation for permanent disablement by way of a lump sum is payable or has been paid to the beneficiary as a result of any accident and the beneficiary is entitled to compensation for incapacity for work as a result of the same accident for a day falling within the period of five years commencing on the date of disablement;
 - (c) compensation in the event of death by way of periodic payments payable to the beneficiary for any period which includes a day for which the beneficiary is entitled to compensation for incapacity for work; or
 - (d) compensation in the event of death by way of periodic payments as the result of the death of any person is payable to the beneficiary for any period for which such compensation to which the beneficiary has subsequently become entitled as the result of the death of any other person is or, but for the regulations, would be payable.

Adjustments for successive accidents

This section to be revised on actuarial advice on payment by lump-sums

49. Regulations may provide for adjusting compensation or the conditions for its receipt where-
- (a) compensation for permanent disablement by way of periodic payments is payable to the beneficiary as the result of any accident for any period which includes a day for which the beneficiary is entitled to compensation for incapacity for work as a result of a subsequent accident;
 - (b) compensation for permanent disablement by way of a lump sum is payable to the beneficiary as the result of any accident and the beneficiary is entitled to compensation for incapacity for work as the result of a subsequent accident for a day which falls within the period of five years commencing on the date of disablement; or
 - (c) compensation for permanent disablement is payable to the beneficiary in respect of two or more successive accidents.

Notification of accidents, etc.

50. Regulations may provide
- (a) for requiring the prescribed notice of an accident in respect of which compensation may be payable to any worker to be given to the employer of the worker within the prescribed time by or on behalf of that worker or, where within that time the worker dies as a result of the accident, by such other person as may be prescribed;
 - (b) for requiring an employer
 - (i) to make a report to the Board, in such form and within such time as may be prescribed, on any accident in respect of which compensation may be payable to or in respect of any worker employed by the employer;
 - (ii) to give the prescribed notice to the Board, in such form and within such time as may be prescribed, of the death of any worker employed by the employer;
 - (iii) to furnish to the Board any information or evidence required for the determination of claims, or of questions arising in connection with claims or awards;
 - (iv) to take such other steps as may be prescribed to facilitate the giving of notice of accidents, the making of claims and the determination of claims and of questions so arising, and, in particular, to keep such records of any accident as may be prescribed, in the case of any accident which arises out of and in the course of the worker's employment.

Medical examination and treatment etc.

- 51 Regulations may provide for requiring claimants for, and beneficiaries entitled to, compensation for incapacity for work or for permanent disablement-

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- (a) to submit themselves from time to time to medical examination for the purpose of determining the effect of the relevant accident, or the treatment appropriate to the relevant injury or loss of faculty;
- (b) to submit themselves from time to time for appropriate medical treatment for the relevant injury or loss of faculty, and the regulations may require such claimants and beneficiaries to attend at the places and at the times as may be required by the Board for the purpose of submitting themselves to such examination or treatment.

Obligations of claimants and beneficiaries, and disqualifications

52. (1) Without prejudice to section 51, it shall be the duty of any worker claiming or entitled to compensation for incapacity for work in respect of any injury not to behave in any manner calculated to retard recovery from that injury.
- (2) Regulations may provide for disqualifying a claimant or beneficiary for the receipt of compensation for incapacity for work for failure, without good cause, to comply with the requirements of subsection (1) in respect of the relevant injury, and may further provide for disqualifying a claimant or beneficiary for the receipt of any compensation, other than compensation under Part VI —
- (a) for failure, without good cause, to comply with any requirement of regulations relevant under this subsection (including, in the case of a claim for compensation in the event of death, a failure on the part of some other person to give the prescribed notice of the relevant accident);
 - (b) for wilful obstruction of, or other misconduct in connection with, any examination or treatment to which the claimant or beneficiary is required under the relevant regulations to submit or in proceedings under this Act for the determination of the claimant or beneficiary's right to compensation or to its receipt; or for suspending proceedings on the claim or payment of compensation, as the case may be, in the case of such failure, obstruction of misconduct.
- (3) Regulations under subsection (2) providing for disqualification for receipt of compensation for any of the following matters, that is to say—
- (a) for failure to comply with the requirements of subsection (1) of this Section or those of regulations under section 51;
 - (b) for obstruction of or misconduct in connection with, medical examination or treatment; shall not be made so as to disentitle a claimant or beneficiary to compensation payable by way of an allowance or periodic payment for a period exceeding six weeks on any disqualification or so as to disentitle a claimant to compensation for permanent disablement payable by way of a lump sum of an amount exceeding such sum as is equal to the product of the average weekly rate of the notional periodic payments taken into account in calculating that lump sum multiplied by six.

.Further provisions as to disqualification

53 Regulations may provide for the disqualification of any person for the receipt of compensation in the event of death payable by way of periodic payments for any period during which that person is residing with a man as his wife or with a woman as her husband.

PART VIII DETERMINATION OF CLAIMS AND QUESTIONS

Adjudication of claims and questions by the Board

54. (1) All claims for compensation and all questions arising in connection with a claim for, or award of, compensation shall be submitted forthwith to the Board for consideration.
- (2) All questions arising in connection with the liability of any person to pay contributions to the Workers Accident Compensation Fund or as to the amount of such contributions shall be submitted forthwith to the Board for consideration.
- (3) A person desiring to obtain the determination by the Board of a question such as mentioned in subsection (2) shall deliver or send to the Board an application in writing in that behalf on a form approved by the Board, and shall furnish to the Board such information as the Board may require for the purpose of considering and determining such question.
- (4) Subject to subsections (5) and (6), the Board shall dispose of any claim or question as soon as may be reasonably practicable and in any case not later than one month after it has taken the same into consideration and may—
- (a) decide the claim or question in favour of the claimant or applicant, as the case may be; or
 - (b) decide the claim or question adversely to the claimant or applicant; or
 - (c) refer the claim or question to the Appeal Authority; and where the Board refers the case to the Appeal Authority under this subsection the Board shall give notice in writing of the reference to the claimant or applicant.

- (5) Subject to subsection (6) if on consideration of any claim or question submitted to it in pursuance of subsection (1), the Board is of the opinion that there arises any of the following questions, that is to say
- (a) whether the relevant accident has resulted in a loss of faculty;
 - (b) whether a loss of faculty is permanent;
 - (c) at what degree the extent of disablement resulting from a loss of faculty is to be assessed; (hereafter in this Part called "the disablement question") the Board shall refer the question for determination to a medical board in accordance with section 55 or to a single registered medical practitioner in accordance with section 56, as the case may require, and shall deal with any other questions as if the question so referred had not arisen.
- (6) The Board may
- (a) postpone the reference of, or dealing with, any question until other questions have been determined;
 - (b) in cases where the determination of any question disposes of a claim or any part of it, make an award or decide that an award cannot be made as to the claim or that part of it without referring or dealing with, or before the determination of any other question.
- (7) Where the Board decides a claim or question adversely to the claimant or applicant, the Board shall give the claimant or applicant notice in writing of its decision and there as on for the decision, and of the right of appeal under section 57.
- (8) Subject to subsections (5) and (6), where the Board has not, within one month, after a duly completed claim is lodged under subsection (1) advised the claimant of its decision, the claimant shall be entitled to treat the claim as having been rejected by the Board and may apply for a review of that decision under section 57 of this Act.

Adjudication of disablement questions by, and constitution of medical boards

55. (1) Subject to the provisions of this section and section 56, the disablement questions shall be determined by the medical board to which they shall have been referred by the Board under section 54 or section 56; and where on such reference the extent of the disablement is provisionally assessed, the case shall again be referred by the Board to that medical board not later than the end of the period taken into account by the provisional assessment.
- (2) Subject to the provisions of this section, a medical board shall consist of two or more registered medical practitioners appointed by the Board of whom one shall be appointed by the Board as **chairman** **person**
- (3) A registered medical practitioner shall not act as a member of a medical board for the purpose of the consideration of any case referred to the board if the medical practitioner
- (a) is or may be directly affected by that case; or
 - (b) has taken part in such case as a medical practitioner who has regularly attended the claimant or to whom any question has been referred for examination and report, or as an employer or as a witness.
- (4) A medical board shall not determine any question if—
- (a) any member thereof is unable to be present at the consideration of the question; or
 - (b) the medical board, being a board consisting of two members, is unable to reach a unanimous decision on the question.
- (5) In any case in which a medical board is unable to determine any question by reason of subsection (3) or subsection (4), the reference to that board shall be revoked and the question shall be referred by the Board to another medical board, which in a case such as mentioned in paragraph (b) of subsection (4) shall consist of three members, whose decision, if not unanimous; shall be that of the majority of the members.
- (6) Reasonable notice of the time and place at which a medical board will sit for the consideration of any case shall be given to the claimant, and if, after such notice has been given, the claimant fails to appear at the sitting of the board, the board shall not proceed to determine the questions referred to it without the claimant's consent.
- (7) A person shall not be entitled to be present or to be heard during the consideration of any question by a medical board, other than the claimant and any other person whom the board may, with the consent of the claimant, allow to be present as being a person who, in the opinion of the board, is likely to assist the board in the determination of that question.
- (8) A medical board shall in each case record its decision in writing in such form as shall be approved by the Board, and shall include in such record (which shall be signed by all the members of the board)
- (a) a statement of the medical board's findings on all questions of fact material to the decision of the board; and

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(b) in a case in which the decision of a medical board consisting of three members is not unanimous, a statement that one of the members dissented and the reasons given for dissenting; and such record shall forthwith be sent or delivered to the Board.

(9) As soon as may be reasonably practicable, the Board shall give to the claimant notice in writing of the decision of a medical board on any question affecting the claimant, and such notice shall be in such form as shall be approved by the Board and shall contain a summary of the findings of the medical board as set out in the record made by the medical board in accordance with subsection (8), including, where the decision was not unanimous, a statement that one of the members dissented and the reasons given for dissenting.

(10) If the Board is of the opinion that a decision of a medical board should be considered by the Appeal Authority, the Board shall refer the case to the Authority and shall give notice in writing of the reference to the claimant. Provided that a reference under this section shall not be made where an appeal against the decision of the medical board has been brought under section 58.

Adjudication of disablement questions by a single doctor

56. (1) In any case where it appears to the Board that the disablement questions may reasonably be expected to be determined without special difficulty, the Board may, with the consent of the claimant or, as the case may be, any person appointed to act on behalf of the claimant by virtue of regulations under subsection (6) of section 45, refer the disablement questions arising in that case to a single registered medical practitioner appointed by the Board instead of to a medical board; and in that event, subject to subsection (2), the provisions of subsections (1), (3), (6), (7), (8), (9) and (10) of section 55 and the provisions of sections 57 and 58 shall have effect as if any reference therein to a medical board or to a member of a medical board included a reference to a registered medical practitioner to whom the disablement questions have been referred by the Board under this subsection.

(2) In any case where a registered medical practitioner to whom the disablement questions have been referred by the Board under subsection (1) is of the opinion that it is desirable that any one of those questions should be determined by a medical board, the medical practitioner shall, instead of determining those questions, make a report in writing to the Board stating his or her opinion; and in that event the Board shall revoke the reference of those questions to that practitioner and shall refer the same to a medical board, to whom a copy of such report shall be made available.

Appeals to the Appeal Authority

57. (1) Where the Board has decided a claim or question adversely to a claimant or applicant, or a claimant is dissatisfied with the decision of a medical board, the claimant or applicant, as the case may be, may appeal to the Appeal Authority: Provided that an appeal shall not lie against a provisional assessment of the extent of disablement before the expiration of the period of twelve months from the date of the first reference of the case to a medical board or to a single registered medical practitioner, as the case may be, nor where the period taken into account by the assessment falls wholly within those twelve months.

(2) An appeal under this section shall be brought by giving to the Board notice of appeal within three months after the date of the decision appealed against or within such longer period as the Appeal Authority may for good cause allow.

(3) A notice of appeal under this section shall be in writing and shall contain a statement of the grounds upon which the appeal is made.

(4) Where the Board has decided any claim or question in favour of the claimant or applicant and the right of any person to compensation is or may be affected by the decision of the Board, that person shall have the like right of appeal to the Appeal Authority as the claimant or applicant would have had if the claim or question had been decided adversely to the claimant or applicant and the provisions of this section shall apply in relation to that person in all respects as if the person were the claimant or applicant and the claim or question had been so decided.

(5) In the case of an appeal from a decision of a medical board, the Board shall furnish the Appeal Authority with a copy of the record made by the medical board in pursuance of subsection (8) of section 5

(6) Reasonable notice of the time and place of any hearing of an appeal under this section shall be given by the Appeal Authority to the appellant and to any other person who may appear to the Authority to be a person interested, as being a person whose right to compensation or liability to pay contributions may be affected by the decision of the Authority.

(7) The hearing of an appeal under this section shall be held in public, except in so far as the Appeal Authority may otherwise direct for any special reason.

- (8) The Board, the appellant and any person appearing to be interested as aforesaid shall have the right to be present and to be heard at the hearing of an appeal under this section.
- (9) If an appellant to whom notice of the hearing of an appeal under this section has been given in accordance with subsection (6) fails to appear at the hearing, the Appeal Authority may proceed to determine the case notwithstanding the appellant's absence, or may give such directions with a view to the determination of the case as it thinks proper having regard to all the circumstances and any explanation offered for the absence of the appellant: Provided that if a reasonable explanation for failing to appear has been given by or on behalf of the appellant, the Authority shall not, without the appellant's consent determine the case unless the hearing has first been adjourned for at least one month and reasonable notice of the time and place of the adjourned hearing has been given by the Authority to the appellant.
- (10) The Appeal Authority may, on an appeal under this section relating to a decision of the Board or of a medical board, confirm, reverse or vary the decision in whole or in part.
- (11) The Appeal Authority shall record its decision on an appeal under this section in writing on such form as shall be approved by the Board, and the Authority shall include in such record a statement of the reasons for its decision including its findings on all questions of fact material to the decision.
- (12) As soon as may be reasonably practicable after a decision on an appeal under this section, the Board shall give notice in writing to the appellant of the decision containing a summary of the record of that decision made in pursuance of subsection (11)
- (13) A question of law arising on the hearing, and before the determination of an appeal under this section may, if the Appeal Authority thinks fit, be referred for decision to the Supreme Court, and where the Authority refers such a question to the Supreme Court it shall give notice in writing of the reference to the appellant.
- (14) The foregoing provisions of this section, other than subsections (1) to (4), shall have effect in relation to any case referred to the Appeal Authority by the Board under subsection (4) of section 54 or under subsection (10) of section 55 as if for any reference in those provisions to an appeal under this section there were substituted a reference to such case and as if for the reference in those provisions to an appellant there were substituted a reference to the claimant in such case.
- (15) On any appeal under this section, the Appeal Authority may order the Board to pay the costs of any person, whether or not the decision is in that person's favour and whether or not the Board appears on the appeal.
- (16) Subsections (5) and (6) of section 54 shall apply in relation to the Appeal Authority as they apply in relation to the Board, except that the Authority shall, instead of referring a question to a medical board or to a single registered medical practitioner, direct that it be so referred by the Board.

Constitution of the Appeal Authority

58.1) There is hereby established an appellate authority for the purposes of this Act to be called the Workers Compensation Appeal Authority (in this Act referred to as "the Appeal Authority").

(2) The Appeal Authority shall consist of a Chairperson and two assessors

~~(2)~~ **(2A)** The Appeal Authority shall consist of one person, who **Chairperson** shall be appointed by the Judicial Service Commission and who shall be a person qualified to be appointed to the Supreme Court; and the Commission shall have the power to remove that person from office and to exercise disciplinary control over that person

(2B) The two assessors shall be represent employers and employees respectively and shall be appointed by the Minister from persons nominated by the Vanuatu Chamber of Commerce, the National Union of Labour and the Public Service Association.

(3) If the person appointed under subsection (2)**A** is for any reason unable to perform the functions of the Appeal Authority under this Part, or pending the appointment of a person under that subsection, the Judicial and Legal Services Commission may appoint a person qualified to be appointed as mentioned in that subsection; and in that event the provisions of that subsection as to the powers of the Commission shall apply as if that person has been appointed under that subsection and the person shall act as the Appeal Authority until the expiration of the period appointment under this subsection or until the appointment is revoked by the Commission, whichever is the earlier. Provided that where any hearing of an appeal under section 57 by a person appointed under this subsection has commenced, the person shall, - notwithstanding the termination of the period of appointment or the revocation of appointment under this subsection, be deemed to be properly acting as the Appeal Authority until such hearing has been determined.

(4) The Board shall assign officers employed by it under section 20 to provide services as may be necessary to enable the Appeal Authority to discharge its functions under this Part.

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(5) The Appeal Authority may, as respects cases which appear to it may reasonably be expected to be determined without special difficulty, delegate any of its functions under this Part to any suitable person approved by the Judicial Services Commission.

(6) Subject to the subsection (9) and subsection (10), in the case of an appeal under section 57 from a decision of a medical board, the Appeal Authority shall sit with two assessors who shall be selected by the Authority from a panel of not less than six registered medical practitioners (one of whom, at least, shall be a woman) appointed thereto for the purposes of this subsection by the Board, after consultation with the Vanuatu Medical Council; and the members of the panel shall, so far as practicable, be so selected in turn to act as such assessors.

(7) The members of the panel appointed under subsection (6) shall hold office for such period as the Board shall determine: Provided that the Board may at any time terminate the appointment of a member.

(8) Subject to subsection (9), in the case of any appeal under section 57, not being an appeal from a decision of a medical board, the Authority may, if it is of the opinion that the appeal involves the consideration of matters of a professional, technical or special nature and that it is desirable so to appoint a person with special knowledge of those matters, appoint such a person to sit at the hearing of the appeal as an assessor: Provided that any medical practitioner appointed under this subsection shall be selected from the panel appointed under subsection (6).

(9) No medical practitioner shall be appointed under subsection (6) or subsection (8) to act as an assessor in any case if the medical practitioner would be disqualified for acting as a member of a medical board in the same case under subsection (3) of section 55; and no person shall be appointed under subsection (6) or subsection (8) to act as an assessor in any case if the person is or may be directly affected by that case or it is a case in which the person has taken any part as the official of any association, as a representative of the appellant, as an employer of the appellant or as a witness.

(10) Where the appellant on an appeal under section 57 from a decision of a medical board is a woman, one of the assessors appointed under subsection (6) shall, so far as may be practicable, be a woman.

(11) An assessor appointed under subsection (6) or subsection (8) shall act as an extra member of the Appeal Authority, but shall not take any part in the determination of an appeal under section 57 except in an advisory capacity.

(12) The provisions of this Part shall, with the necessary modifications, have effect in relation to any case referred to the Appeal Authority by the Board under section 54 or section 55.

Remuneration and expenses of Chairperson and members of medical boards', etc.

59-(1) The Board may pay—

(a) to the Appeal Authority **members** and to any assessor appointed by the Authority;

(b) to the chairperson and members of a medical board; and (c) to a medical practitioner appointed to act instead of a medical board. remuneration and travelling and other allowances as the Board shall determine, and may pay other expenses as the Board shall determine, being expenses incurred in connection with the discharge of the functions of the Appeal Authority, a medical board or practitioner. Provided that the approval of the Minister shall be required in the case of any determination by the Board relating to remuneration.

(2) In subsection (1) references to travelling and other allowances include payment for loss of remunerative time, but such payment shall not be paid to a person in respect of any time during which the person is in receipt of remuneration under this section.

Expenses of other persons

60. The Board may pay to any person required to attend any proceedings under this Part such travelling and other allowances, including payment for loss of remunerative time, as the Board shall determine. Provided that in determining the amount of such payment the Board shall take into account any remuneration received or payment for incapacity for work payable for the same period.

Question first arising on appeal

61. Where a question under this Act first arises in the course of an appeal to the Appeal Authority, the Authority may, if it thinks fit, proceed to determine the question notwithstanding that it has not been considered by the Board: Provided that this section does not apply to a question which is one of the disablement questions.

Appeal to the Supreme Court on questions of law, etc.

62. Subject to the provisions of this section, an appeal shall lie to the Supreme Court from any decision of the Appeal Authority at the instance of—

- (a) the Board;
 - (b) the claimant or applicant;
 - (c) in any case such as is mentioned in subsection (2), a trade union; and
 - (d) in a case relating to a claim for compensation in the event of death, a person (not being the claimant) whose right to such compensation is or may be affected by the decision appealed against.
- (2) The cases in which an appeal lies at the instance of a trade union are the cases where the claimant was a member of the union at the date of the relevant accident or, in relation to a claim for compensation in the event of death, where the deceased was a member of the union at the date of the relevant accident or at the date of death.
- (3) Subsections (1) and (2) shall apply in relation to any association other than a trade union which exists to promote the interests and welfare of its members as those subsections apply in relation to a trade union.
- (4) No appeal shall lie under this section without the leave of the Appeal Authority or, if the Appeal Authority refuses to grant leave to appeal, of the Supreme Court.
- (5) The Appeal Authority or the Supreme Court, as the case may be, may grant leave to appeal on a question of law which has not been referred to the Supreme Court under subsection (13) of section 57 or where, in the opinion of the Authority or of the Court, the question in respect of which such leave is being sought is one which by reason of its general or public importance or for any other special reason ought to be submitted to the Supreme Court for decision,
- (6) An appeal to the Supreme Court under this section shall be brought within three months from the date of the decision of the Appeal Authority appealed against, or within such further period as the Authority or the Court may allow on granting leave to appeal.
- (7) The Board and any person entitled under this section to appeal against any decision of the Appeal Authority shall be entitled to be present and to be heard at the hearing of any reference or appeal to the Supreme Court under this Part relating to that decision.
- (8) On any such appeal the Supreme Court may confirm, reverse or vary the decision appealed against, in whole or in part, and on any such reference or appeal the Supreme Court may order the Board to pay the costs of any person, whether or not the decision of the Court is in that person's favour and whether or not the Board appears on the reference or appeal.
- (9) Notwithstanding anything in any other Act, but subject to sections 64 and 65, the decision of the Supreme Court on any such reference or appeal shall be final.
- (10) Subject to the foregoing provisions of this section, the procedure in respect of any such reference or appeal shall be regulated by rules of the Supreme Court.

Reference to a medical practitioner for report

63. The Board, the Appeal Authority or the Supreme Court may refer to a registered medical practitioner for examination and report- any question arising for determination by the Board, the Authority or the Court respectively.

Review of decisions other than decisions on disablement questions

64. (1) Any decision under this Part of the Board, the Appeal Authority or the Supreme Court, not being a decision in connection with any of the disablement questions, may be reviewed at any time by the Board or, on a reference from the Board, by the Appeal Authority, if
- (a) The Board or Appeal Authority is satisfied and, in the case of a decision of the Supreme Court, satisfied by fresh evidence, that the decision was given in ignorance of, or was based on a mistake as to, some material fact;
 - (b) there has been any relevant change of circumstance since the decision was given;
 - (c) the decision was based on the decision of any of the disablement questions and the decision of that question is revised under section 65.
- (2) A question may be raised with a view to a review under this section by means of an application in writing to the Board, stating the grounds of the application.
- (3) Sections 54, 57 and 62 shall apply, *mutatis mutandis*, to an application for a review under this section and to a decision of the Board or of the Appeal Authority in connection with such an application as they apply in relation to the original submission of a claim or question to the Board under section 54 and to an original decision of the Board or of the Appeal Authority in connection with a claim or question submitted for determination by the Board under section 54.

Review of disablement questions

65 (1) Any decision under this Part of a medical board, the Appeal Authority or the Supreme Court in connection with any of the disablement questions may be reviewed at any time by a medical board if the board is satisfied by fresh evidence that the decision was given in consequence of the non-disclosure or misrepresentation by the claimant or any other person of a material fact (whether the non-disclosure or misrepresentation was or was not fraudulent).

(2) Any assessment of the extent of the disablement resulting from the loss of faculty may also be reviewed by a medical board if the board is satisfied that since the making of the assessment there has been an unforeseen aggravation of the results of the injury.

(3) Where it is decided in connection with a claim for compensation for permanent disablement that the accident has not resulted in a loss of faculty or that a loss of faculty resulting from the accident is not permanent, the decision may be reviewed under subsection (2) as if it were an assessment of the extent of disablement resulting from a loss of faculty. Provided that a further decision on review, shall be treated as deciding the question whether the accident has so resulted both for the time about which the decision was given and for any subsequent time,

(4) A question may be raised with a view to a review under this section by means of an application in writing to the Board, stating the grounds of the application; and on receipt of such application, the Board shall refer the application to a medical board.

(5) An assessment made, confirmed or varied by the Appeal-Authority shall not be reviewed under subsection (2) without the leave of the Authority as constituted for the purpose of hearing an appeal from a decision of a medical board; and for the purpose of enabling the Authority to consider whether or not such leave shall be granted, the Board shall refer the relevant application to the Authority.

(6) Subject to the foregoing provisions of this section, a medical board may deal with a case on a review in any manner in which the board could deal with the case on an original reference to the board, and in particular may make a provisional assessment, notwithstanding that the assessment -under review was final, if a provisional assessment may otherwise be made under section 31.

(7) Sections 55, 57 and 62 shall apply to an application for a review under this section and to a decision of a medical board or of the Appeal Authority in connection with such an application as they apply to an original claim for compensation for permanent disablement and to a decision of a medical board or of the Authority in connection with such a claim.

Procedure and Evidence

66 (1) Subject to the provisions of this Part-

(a) the procedure in connection with the consideration and determination of any claim or question under this Act by any adjudicating authority shall be such as the authority shall determine;

(b) any person who by virtue of the provisions of this Part has the right to be heard at a hearing by or before an adjudicating authority may be represented by another person, whether having professional qualifications or not, at the cost of the person, and for the purposes of the proceedings at any such hearing, any such representative shall have - all the rights and powers to which the person represented is entitled under this Part.

(2) Any person having the right to be heard who appears at a hearing by or before an adjudicating authority may call witnesses and shall be given an opportunity of putting questions directly to any witnesses called at the hearing and of addressing the authority.

(3) Any such witness shall, if the adjudicating authority thinks fit, be examined on oath; and the authority or person presiding at a hearing before the authority, as the case may be, shall have power to administer oaths for that purpose. (4) Regulations may make provision, in relation to the determination of any claim or question under this Act

(a) for summoning persons to attend and give evidence or produce documents at a hearing by or before an adjudicating authority;

(b) as to the form which is to be used for any document, the evidence which is to be required and the circumstances in which any official record or certificate is to be sufficient or conclusive evidence;

(c) for the non-disclosure to a person of the particulars of any medical advice or medical evidence given or submitted for the purposes of any such determination if, in the opinion of the adjudicating authority, disclosure of those particulars to that person would be undesirable in the person's interest;

(d) for requiring or authorizing the Board to hold, or to appoint a person to hold, an inquiry in connection with the consideration of any claim or question and for conferring on the person such functions of the Board under this Part as may be prescribed.

Effect of adjudication on payment and recovery of compensation

67. (1) Subject to subsection (5), where compensation is or has been paid in pursuance of a decision which is reversed or varied on appeal or is revised on a review under this Part, the decision given on the appeal or review shall require repayment to the Board of any compensation which was paid in pursuance of the original decision to the extent to which it would not have been payable if the decision on the appeal or review had been given in the first instance.

(2) A decision given on such an appeal or review shall not require repayment of compensation paid in pursuance of the original decision in any case where it is shown to the satisfaction of the Board or Appeal Authority, as the case may be, that in the obtaining and receipt of the compensation the beneficiary, and any person acting on the beneficiary's behalf; has throughout used due care and diligence to avoid overpayment.

(3) Where on such a review a decision is revised so as to make compensation by way of an allowance or periodic payments payable or to increase the rate of such compensation, the decision on review shall have effect as from the date of the application for the review or from such earlier date as appears to the Board or Appeal Authority, as the case may be, to be reasonable in the circumstances. Provided that such compensation shall not become payable from a date earlier than the earliest date on which it could have become payable had it been awarded in the decision being reviewed.

(4) Where on such a review a decision as to compensation by way of a lump sum is revised so as to make the compensation payable or to increase the rate of the notional periodic payments taken into account in arriving at the decision which has been reviewed, the decision on review shall take effect as if the notional periodic payments taken into account in arriving at that decision were payable from the date of disablement.

(5) The Board may, in any case where it considers that it is appropriate so to do, treat any sum on account of compensation which has been paid to any person in pursuance of any decision which is subsequently revised on a review or reversed or varied on appeal as paid on account of any compensation which it is decided is or was payable to that person in respect of the same accident.

Effect of adjudication on payment and recovery of contributions

68 (1) Subject to subsection (2), where a decision as to the liability of any person to pay contributions, or as to the amount of any contributions payable by that person, is reversed or varied on appeal under this Part or is revised on a review under this Part, the decision given on the appeal or review shall require the Board to refund to that person the amount of any contributions or such part thereof as would not have been payable by that person if the decision on the appeal or review had been given in the first instance.

(2) The Board may treat any sum on account of contributions which has been paid by any person in pursuance of any decision which is subsequently reversed or varied on an appeal or revised on a review as paid on account of any other contributions payable by that person.

PART IX OCCUPATIONAL DISEASES

General provisions as to compensation in respect of occupational diseases

69 (1) Subject to the power to make different provision by regulations and to the following provisions of this Part, compensation shall be payable to any worker in respect of any occupational disease against which the worker is insured under this Act and to the worker's dependants in the event of the worker's death resulting from such disease; and the compensation which shall be so payable, and the conditions for its receipt, shall be the same as in the case of an accident

(2) In relation to occupational diseases, regulations may provide—

(a) for modifying the provisions of this Act relating to compensation in respect of accidents and the administration of such compensation;

(3) for adapting references in this Act to accidents.

Date of development and recrudescence

70. Provision may be made by regulations for determining—

(a) the time at which a person is to be treated as having developed any occupational disease; and

(b) the circumstances in which such a disease is, where the person in question has previously suffered from it, to be treated as having recrudesced or as having been contracted or received afresh.

PART X FINANCIAL PROVISIONS

Funds to be established

71. For the purposes of this Act the Board shall establish and maintain-
- (a) a fund to be called the Workers Accident Compensation Fund
 - (b) a fund to be called the Workers Compensation Board's General Fund

Contributions by employers to Workers Accident Compensation Fund

72 (1) Subject to the provisions of this section every employer shall pay to the Board in respect of each worker in every month during which the worker is employed by the employer ~~and in the month following the termination of such employment~~, a contribution to the Workers Accident Compensation Fund calculated at the rate as **prescribed** ~~determined~~ by regulations ~~being not less than one per cent nor more than four per cent of~~ on the gross amount of remuneration payable to such worker.

~~(2) In determining the rates under subsection (1), regard shall be had to for the nature of the work performed and in particular the safety hazards and health risks involved in that work.~~

(2) The Board shall classify each employer in an industry class for this scheme according to the employer's trade or business being an industry class set out in regulations for the purpose of establishing contribution rates payable under this Act

Provided that regulations shall provide for classifying employers where an employer is engaged in two or more activities

(2A) Any employer who is dissatisfied with the decision of the Board in respect of his or her liability to pay contributions at a particular rate or rates under this Act may seek a review by the Board within 2 months of receiving the decision

Provided that the employer shall pay contributions at the rate determined by the Board pending the outcome of the review

(3) For the purposes of this section "remuneration" means all emoluments which would be due in money to a worker under a contract of service if no deductions were made there from, whether in pursuance of any law requiring or permitting the making of any deduction or otherwise and whether such emoluments have been agreed to be paid monthly, weekly, daily or otherwise. Provided that the following shall not be deemed to be wages —

(a) payments made by an employer to a -worker in reimbursement of sums necessarily expended by the worker on behalf of the employer for the purposes of the worker's employment;

(b) such other payments or class of payments as may be prescribed by regulation.

(4) An employer shall not be entitled to recover from a worker any employers contribution paid under subsection (1) in respect of the worker, whether by way of a deduction from the wages of the worker or otherwise.

(5) Where the contributions made under this Act are payable by the employer, the National Provident Fund Board, established by the National Provident Fund Act, or any other appropriate organization as the Board shall determine, may be deemed an agent of the Board under section 20 and have delegated to it under section 22, the function of the said Board relating to the collection and recovery of contributions and surcharges; unless the said Board requires that in any particular case, contributions paid under this Act shall be paid directly to the Board at times as it shall determine.

(6) Where contributions under this Act are payable by an employer in respect of a worker in any month and the employer is not registered as an employer not being an employer within the meaning the National Provident Fund Act, the employer shall forthwith register under and in accordance with that Act as an employer within that meaning; and thereupon —

(a) the provisions of that Act as to the allocation of an employer's reference number and as to the duties of any person upon ceasing to be an employer within that meaning or on again becoming such an employer shall have effect accordingly in relation to a person to whom this subsection applies; and

(b) the provisions of subsection (5) shall apply in relation to the payment of those contributions as if the employer were liable to pay a contribution under the Act in respect of that worker in that month.

(7) Where any contributions which an employer is liable to pay are not paid in the month during which they were due to be paid, the employer shall be liable to pay to the Board a surcharge on the total amount of all the contributions which have not been so paid at the rate of five *per cent* in respect of each month or part of a month after the expiration of the earliest month during which any such contribution was due to be paid. Provided that

(i) if the amount of the surcharge so calculated is less than five dollars, the surcharge payable shall be five dollars;

(ii) if the amount of the surcharge exceeds five dollars, the surcharge payable shall be calculated to the next highest multiple of five dollars; and

(iii) the Board may, if it thinks fit to do so, remit in whole or in part the payment of any surcharge due under this subsection.

(8) A failure on the part of a registered employer to pay contributions which the employer is liable to pay shall not affect a worker's right to any benefit due to the worker under this Act.

Rating of Employers

73. Regulations made under this Act ~~may~~ **shall** establish a system of **industry classes** for the rating of employers in respect of work related accidents and occupational diseases, which ~~shall may~~ include ~~no-claim bonuses or increased contributions. Such rating shall be determined~~ **adjustment up or down by the Board at prescribed intervals of the contribution rates payable by an employer** on the basis of the cost of accidents and occupational diseases that occur in respect of the workers employed by an employer for such period or periods as shall be prescribed by regulation. ~~Provided, in no case shall a no-claim bonus, be more than ten percent of the employers contributions.~~

Workers Accident Compensation Fund

- 74 (1) There shall be paid into the Workers Accident Compensation Fund-
- (a) all contributions and surcharges paid to the Board in pursuance of section 72; - -
 - (b) all interest and other income derived from the moneys and investments comprised in that Fund;
 - (c) all other sums payable to the Board under this Act which, in the opinion of the Board, are so payable in pursuance of the provisions of this Act relating to compensation for accidents or occupational diseases; and
 - (d) such moneys advanced by the Government under section 79 as are, in the opinion of the Board, required exclusively for the purposes of the operation of the provisions of this Act relating to compensation for accidents or occupational diseases.
- (2) There shall be paid out of the Workers Accident Compensation Fund-
- (a) all sums on account of compensation payable in respect of accidents or occupational diseases;
 - (b) all sums required to be transferred to the Board's General Fund under subsection (3) of section 75; .1
 - (c) all sums payable by the Board under section 82 by way of the refund of contributions or surcharges;
 - (d) all such sums payable by the Board under section 23 by way of remuneration, fees and allowances to members of committees appointed by the Board and to agents of the Board as are, in the opinion of the Board, attributable to the operation of this Act in connection with compensation for accidents or occupational diseases;
 - (e) all such sums payable by the Board under section 59 by way of remuneration and allowances to the Appeal Authority, to any person appointed by the Authority under section 58, to the chairperson and members of a medical board and to a registered medical practitioner appointed to act instead of a medical board as are, in the opinion of the Board, so attributable; and
 - (f) all sums by way of the repayment to the Government of such moneys as are mentioned in paragraph (c) of subsection (1).

Workers Compensation Board's General Fund

- 75 (1) There shall be paid into the Board's General Fund-
- (a) all sums required under subsection (3) to be transferred to that Fund from the Workers Accident Compensation Fund; - -
 - (b) all interest and other income derived from the moneys and investments comprised in the Board's General Fund;
 - (c) any moneys advanced by the Government otherwise than under section 79 for the purpose of meeting the cost of the general administration of this Act;
 - (d) all other sums received by the Board which, in the opinion of the Board, are not required to be paid under section 74 into the Workers Accident Compensation Fund.
- (2) There shall be paid out of the Board's General Fund-
- (a) all sums payable by the Board by way of salaries and allowances to members of the Board, to any person co-opted to the Board, and to the ~~Chief Executive~~ **General Manager** and other officers of the Board;
 - (b) all such sums payable by the Board by way of remuneration, fees and allowances to members of committees appointed by the Board and to agents of the Board, and all such sums payable by the Board to the chairperson and members of a medical board and to a registered medical practitioner appointed to act instead of a medical board as, in the opinion of the Board, are not required under section 74 to be paid out of the Workers Accident Compensation Fund;

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(c) all sums payable by the Board in respect of expenses incurred by the Board in relation to the prevention of accidents and occupational diseases programmes undertaken by the Board in terms of its functions;

(d) all other expenses which the Board has incurred in the administration of this Act which, in the opinion of the Board, are not required to be so paid out as mentioned in paragraph (b);

(e) all sums by way of repayment to the Government of such moneys as are mentioned in paragraph (c) of subsection (I).

(3) Where, in the opinion of the Board, the total amount of the payments into the Board's General Fund in respect of any financial year will be less than the total amount of the repayments required to be made out of that Fund in respect of that year, the Board shall cause the estimated amount of the deficiency to be met by- transferring from the Workers Accident Compensation Fund, a sum equal to such proportion of that estimated amount as the total amount of the payments into the latter Fund in respect of that year bears to the aggregate of the total amount of the payments into the latter Fund in respect of that year, and any surplus or deficit in the Board's General Fund at the end of any financial year shall be taken into account by the Board for the purposes of this subsection in the next financial year.

Investment of money.

76 (1) The Board shall

(a) deposit in a bank licensed under the Banking Act any money comprised in any hind established by this Act; and

(b) invest money as is available for investment in any investments authorized for the investment of money by the Trustee Act; or

(c) invest money in Government securities.

(2) Money belonging to the Board must not be used to finance personal or other loans of any kind.

Accounts and audit

77 (1) The Board shall keep full and correct accounts of all moneys received and expended by the Board and such accounts shall be audited annually by the Auditor- General.

(2) The Board shall publish quarterly financial reports relating to the income and expenditure of each hind established by this Act, in accordance with rules as may be prescribed.

(3) As soon as may be after the end of each financial year, but not later than six months after the end of that year, an account of the income and expenditure of each hind established by this Act, together with a statement of the assets and liabilities of each hind, and the report of the Auditor-General thereon, shall be laid before Parliament.

Annual report of the Board

78 The Board shall cause a report of its activities during each financial year to be prepared and to be laid before Parliament at the same time as the accounts of the Board in respect of that year. - -

Valuation of assets and liabilities.

78A (1) The Board shall, at intervals of five years, cause an actuarial review to be carried out on the working of the scheme, involving a valuation of the assets and liabilities of the Organisation, and such report shall be submitted to the Board

Provided that the first actuarial review shall be carried out after 3 years for the purposes of the review of the scheme prescribed in section 96

(2) The Board shall consider the actuarial report and submit its views and any recommendations to the Minister

Provided that it shall be open to the Board to request the Minister to authorise such actuarial reviews and valuations at such other times as the Board may consider necessary.

Government guarantee

79. If at any time, the Minister is satisfied that the Board is unable to pay any sum required to be paid by it under this Act by reason of a deficiency in the fund established under this Act from which that sum is so required to be paid, such sum shall, subject to the approval of the Minister of Finance be advanced by the Government to the Board and shall be repaid by the Board to the Government.

Appropriation of contributions payable by Government

80. All contributions (including surcharges or penalties) payable under this Act or any regulations made under this Act by the Government shall be paid to the Board without further appropriation than this section.

Statement to accompany payment of contributions

81. (1) Every payment of contributions by an employer in respect of any worker shall be accompanied by a statement on a form approved by the Board, specifying the name of the worker, the amount of the contribution and the total amount of remuneration paid to the worker, being the remuneration by reference to which the amount of the contribution was calculated.

(2) A duplicate copy of such statement furnished by an employer, and the receipts issued on behalf of the Board on the payment of any contribution, shall be retained by the employer for the period of two years next following the date on which the statement was so furnished or the receipts issued, as the case may be.

(3) An employer shall keep a proper record of the remuneration paid to each worker in respect of which contributions are payable and such record shall be retained by the employer for the six years next following the date on which the last entry was made therein with respect to that worker

Return of contributions paid in error

82 Any contribution or surcharge paid in error by an employer shall be returned by the Board to the employer if application in writing is made to the Board in that behalf within the two years next following the date on which the contribution or surcharge was paid. Provided that the Board may treat any contribution or surcharge so paid on account of any other contribution or surcharge.

Review of general level of earnings and prices

83. (1) The Board shall, as often as it deems necessary, review all rates of compensation by way of allowances or periodic payments for the purpose of determining whether those rates have retained their value in relation to the general level of earnings and prices obtaining in Vanuatu. In no case shall the intervals exceed five years between one review and the next.

Provided that the first such review shall be undertaken within three years of the commencement of this Act.

Provided further that the Board may obtain actuarial advice for the purposes of the review

(2) For the purposes of any such review the Board shall estimate the general level of earnings and prices in such manner as it thinks fit.

Up-rating of compensation

84.(1) If on any review carried out by the Board under section 86 the Board concludes that the rates of compensation have not retained their value in relation to the general level of earnings and prices obtaining in Vanuatu, the Board may recommend to the Minister that any such rates be increased by such percentage as the Board considers appropriate with effect from such date as the Board shall determine for the purpose of restoring the value of any of those rates.

(2) The Minister may, after consultation with the Board, make regulations to implement the recommendations of the Board made under subsection (1) to the extent that the Minister considers appropriate having regard for all of the relevant circumstances.

PART XI ENFORCEMENT

Powers of Inspectors

Annexes

85. (1) An inspector appointed under subsection (2) of section 20, shall, for the purposes of the execution of this Act, have the following powers

- (a) to enter at all reasonable times any premises liable to inspection under this Act;
- (b) to make such examination and inquiry as may be necessary
 - (i) for ascertaining whether the provisions of this Act are being or have been complied with in any such premises; or
 - (ii) for investigating the circumstances in which any injury resulting from an accident or any illness resulting from an occupational disease which has given or may give rise to a claim for compensation was or may have been received or contracted;
- (c) to interview any person, either alone or in the presence of any other person as the inspector thinks *fit*, in relation to any matters under this Act on which the inspector may reasonably require information;
- (d) to exercise such other powers as may be necessary for carrying this Act into effect.

(2) The premises liable to inspection under this Act are anywhere an inspector has reasonable grounds for supposing that any persons are employed or that any injury resulting from an accident or any illness resulting from an occupational disease which has given or may give rise to a claim for compensation has been or may have been received or contracted, as the case may be.

(3) Every inspector shall be furnished with a certificate of appointment, and on applying for admission to any premises for the purposes of this Act shall, if so required, produce the certificate.

(4) Where any premises are liable to be inspected by an inspector or officer who is appointed or employed by, or under the control of, some other Government department, the Board, with the approval of the Minister, may make arrangement with that department for any of the powers or duties of inspectors under this Act to be carried out by an inspector or officer employed by that department; and, where such an arrangement is made, such inspectors or officers shall have all the powers of an inspector under this Act.

Duty to submit to inspection

86 (1) In accordance with this section, persons shall furnish to an inspector all such information, and produce for inspection all such documents, as the inspector may reasonably require for the purpose of ascertaining-

- (a) whether any contributions are or have been payable, or have been duly paid, by or in respect of any person; or
- (b) whether compensation is or was payable to or in respect of any person.

(2) The following persons are under the duty imposed by subsection (1) above-

- (a) any claimant or beneficiary;
- (b) the occupier of any premises liable to inspection under this Act;
- (c) any person who is or has been employing another; and
- (d) the agents of any such person as mentioned in paragraph (b) or (c); but no person shall be required under this section to answer any questions or to give any evidence tending to incriminate himself or herself and shall be cautioned accordingly.

Offences and penalties

87 (1) If any person

- (a) for any purpose connected with this Act
 - (i) knowingly makes any false statement or false representation; or
 - (ii) makes or supports a claim for compensation while knowing the worker concerned is capable of work; or
 - (iii) produces or furnishes, or causes or knowingly allows to be produced or furnished any document or information which the person knows to be false in a material particular;
- (b) fails or refuses to comply with the provisions of subsection (1) of section 40;
- (c) fails or refuses to pay in any month any contribution which the person is liable to pay in that month under subsection (1) of section 72;
- (d) fails or refuses to pay any surcharge which the person is liable to pay under subsection (6) of section 72;
- (e) wilfully obstructs an inspector in the exercise of the inspectors' powers under this Act
- (f) refuses or neglects to answer any question or to furnish any information or to produce any document when required so to do by or under this Act;
- (g) deducts or attempts to deduct from the remuneration of any worker any employer contribution paid in respect of that worker;

(h) without the authority of the Board, discloses any information relating to the operation of this Act which has been disclosed to the person as a member of the Board, as a member of a committee appointed by the Board or as an officer, or agent of the Board, otherwise than in the due discharge of the persons inflections in that capacity;

(i) without the authority of the Board, procures another person to whom any information relating to the operation of this Act has been disclosed in any such capacity to disclose such information otherwise than in the due discharge of that other person's functions in that capacity; that person is guilty of an offence is liable on conviction to a fine of ten thousand dollars or to imprisonment for a term not exceeding one year or to both such fine and imprisonment.

(2) Where a person is convicted of an offence under paragraph (7) of subsection (1) and the refusal or neglect is continued after conviction, that person is guilty of a further offence and is liable, on conviction, to a fine of fifty dollars for each day on which it is so continued.

General provisions as to prosecutions

88. (1) Notwithstanding the provisions of any other Act, proceedings for any offence under this Act may be taken within six years from the date of the commission of the offence.

(2) In proceedings for an offence under this Act, the wife or husband of the accused shall be competent to give evidence, whether for or against the accused: Provided that the wife or husband shall not be compellable to give evidence or, in giving evidence, to disclose any communication made to her or him by the accused during the marriage.

(3) Where an offence under this Act which has been committed by a company or body corporate is proved to have been committed with the consent or connivance of, or to be attributable to any neglect on the part of a director, manager, secretary or other similar officer of the company or body corporate, or any person who was purporting to act in any such capacity, that officer or person, as well as the company or body corporate, shall be guilty of that offence and be liable to be proceeded against accordingly.

(4) Where the affairs of a company or body corporate are managed by its members, subsection (3) shall apply in relation to the acts and defaults of a member in connection with the members functions of management as if the member were a director of the body corporate.

(5) Where it is proved, on the conviction of any person for an offence under this Act, that the person has recovered from any worker the amount of any employer's contribution paid in respect of that worker whether by way of a deduction from that worker's remuneration or otherwise, the court may order that person to repay that amount to the worker.

(6) If notice of intention so to do is served by the prosecuting officer upon the defendant, evidence may be given, at any trial for an offence under the provisions of paragraph (c) of subsection (1) of section 87 or of subsection (5) of this section, of other contributions unpaid at the date of the service of the summons upon the defendant in respect of any of his or her workers or former workers and, if the defendant is convicted of such offence, the court may, without prejudice to any right under the provisions of section 87, order the defendant to pay to the Board the amount of such unpaid contributions, together with any contributions unpaid at the date of trial in respect of the charge upon which the defendant has been convicted

(7) Where any person is convicted under paragraph (d) of subsection (1) of section 87 of failure to pay any surcharge, the court may, without prejudice to the provisions of section 87 order the defendant to pay to the Board the amount required to be paid as a surcharge in the same way as is provided in relation to the payment of contributions under subsection (6) of this section.

(8) Prosecutions in respect of any offences under this Act may be instituted by the ~~Chief Executive~~ **General Manager**, or by any officer or agent of the Board authorised in writing in that behalf by the ~~Chief Executive~~ **General Manager** and the ~~Chief Executive~~ **General Manager** or any such authorised officer, or agent may conduct any such prosecutions whether or not he or she was the person who instituted the proceedings by complaint or otherwise

(9) A certificate of the ~~Chief Executive~~ **General Manager** that any amount by way of a contribution or a surcharge which a person is liable to pay to the Board has not been paid shall, until the contrary is proved, be sufficient evidence in any proceedings before any court that the sum mentioned in the certificate is unpaid and due.

Civil proceedings for the recovery of sums due to the Board

89. (1) Sums payable to the Board under this Act shall, without prejudice to any other remedy, be recoverable by the Board as a civil debt.

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(2) Notwithstanding the provisions of any other Act, proceedings for the recovery of any such sum may be brought at any time within six years from the date on which that sum became due and payable to the Board.

(3) Proceedings for the recovery of any such sum may be brought by the ~~Chief Executive~~ **General Manager** or any other officer or agent of the Board authorized in writing in that behalf by the ~~Chief Executive~~ **General Manager**; and the ~~Chief Executive~~ **General Manager** or any such officer or agent may conduct any such proceedings whether or not they were brought by him or her.

PART XII GENERAL AND MISCELLANEOUS

Action for damages for accident

90 (1) No proceedings for damages arising directly or indirectly out of personal injury caused by an accident that is suffered by any worker against which the worker is insured under this Act shall be brought in any court in Vanuatu whether by that worker or any other person acting on behalf of that worker or whether under any rule of law or any enactment.

(2) For the avoidance of doubt, it is hereby declared that nothing in this section shall be affected by-

(a) the failure or refusal of any person to lodge a claim for any compensation, grant, allowance, treatment, service or related transport under this Act; or

(b) any purported denial or surrender by any person of any rights under this Act.

(3) For the purposes of this section "accident" includes any illness caused by an occupational disease and any impairment of a worker's physical or mental condition resulting from an accident or occupational disease.

General provision as to regulations

91. The Minister on the recommendation of the Board may make regulations for any purpose for which regulations may be made under this Act and for prescribing anything which may be prescribed under this Act and otherwise for the purpose of carrying this Act into effect.

Corresponding systems in other countries

92. For the purpose of giving effect to any agreement with the government of any other country providing for reciprocity in matters relating to the payment of compensation or benefit in respect of accidents or occupational diseases covered by this Act, the Minister may by order make provision for modifying or adapting this Act in its application to cases affected by the agreement.

Exemption from stamp duty

93. Every contract or other instrument made or executed by or on behalf of the Board shall be exempt from stamp duty under the Stamp Duties Act.

Exemption from application of Insurance Act

94. The provisions of the Insurance Act shall not apply to the Board or any agent of the Board.

Act to bind Government

95. This Act shall bind the Government, including Government departments and statutory authorities.

Review of workers compensation scheme

96. The Minister, with the approval of Cabinet, shall arrange for a review of the workers compensation scheme provided in terms of this Act as soon as reasonably practicable before the end of the third year in which the Act was in force. Such reviews shall be undertaken every five years thereafter.

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