



SAINT LUCIA

The background of the cover features a photograph of a volcanic landscape, likely Mount Pitons in Saint Lucia, with a large, dark, jagged rock formation in the foreground. Overlaid on this image are several white rectangular boxes of varying sizes. In the center, there is a cluster of white silhouettes of people of different heights, some standing and some sitting, facing away from the viewer towards the landscape. The text 'Report to the Government' is positioned within one of the white boxes, and 'Issues related to the introduction of unemployment insurance' is positioned within another box that overlaps the silhouettes.

Report to the Government

Issues related to
the introduction of
unemployment insurance

International Financial and Actuarial Service
Social Protection Sector

St Lucia Government Task Force

June 2003

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Report to the Government

Issues related to the introduction of unemployment insurance

**International Financial and Actuarial Service
Social Protection Sector
International Labour Organization Geneva**

St Lucia Government Task Force

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Foreword

The Government of St. Lucia established a Task Force in March 2002, one of its mandates being to determine the feasibility of introducing an unemployment insurance (UI) benefit. Under a trust-in-fund agreement with the National Insurance Corporation (NIC) of St. Lucia, the ILO has been mandated to analyse the issues related to the introduction of this programme.

The ILO appointed Mr. Derek Osborne, Actuary of the National Insurance Board of the Bahamas and responsible for the *ILO Umbrella Programme for Actuarial Reviews to Selected Countries in the Caribbean*, and Mr. Pierre Plamondon, Actuary at the Social Protection Sector of the ILO, to undertake this assignment. Mr. Osborne was in St. Lucia in November 2002 for preliminary discussions and data collection on the labour force. Mr. Osborne prepared a draft report outlining the main issues related to the introduction of the scheme, including preliminary cost estimates. Mr. Plamondon was in St. Lucia in January 2003 to discuss the report prepared by Mr. Osborne with the national stakeholders and to complete the collection of the statistical information in order to provide more precise cost estimates for the scheme.

The report outlines the objectives and structure of a typical UI benefit with a specific view to its implementation in St. Lucia. It concludes with general recommendations on the establishment of such a scheme in St. Lucia. A summary of the structure and experience of the Unemployment Benefits Scheme of Barbados and a comparison of similar schemes in four other countries are detailed in Appendices I and III.

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Abbreviations and acronyms

AWIE	Average weekly insurable earnings
CARICOM	Caribbean Community Secretariat
EC\$	East Caribbean dollar
ILO	International Labour Organization
NIC	National Insurance Corporation
NIF	National Insurance Fund
PAYG	Pay-as-you-go
UI	Unemployment insurance
UIF	Unemployment Insurance Fund

Currency and exchange rate

The currency of St. Lucia is the East Caribbean dollar. The exchange rate for the month of June 2003 was 2.7 East Caribbean dollars to one United States dollar.

Executive summary

The level of unemployment is relatively high in St. Lucia. The 2001 Census reveals a global unemployment rate of 18.9 per cent. The situation of workers in the formal sector of the economy (the group composed of the present National Insurance Corporation [NIC] contributors and civil servants), as regards unemployment, appears to be generally similar to the situation of the whole labour force.

Unemployment insurance (UI) is probably the most difficult of all social security benefits to administer, in view of the need to prevent the simultaneous receipt of unemployment benefit and earnings from work. Benefit claims must be carefully checked and efforts of jobseekers to find employment closely monitored, necessitating a well staffed Employment Service. The administrative support (placement service, training, exchange of information between the Employment Service and the NIC) should be in place before paying unemployment benefits.

The high level of unemployment in St. Lucia should not however prevent the introduction of a UI benefit, which would have clear economic advantages in stabilizing the economy during periods of recession and in promoting a better utilization of labour. It would be possible to design the UI benefit, at least initially, in a manner that would limit the level of expenditures. Table 0.1 outlines the provisions recommended for the introduction of the scheme, keeping in mind that it is possible to move towards more generous provisions as the experience develops, on the condition that costs are kept under control.

Table 0.1 Recommended provisions for introducing UI benefit scheme

(reference is made to ILO Conventions No. 102 and 168 concerning “minimum standards of social security” and “the employment promotion and protection of against unemployment” respectively)

Coverage	Present NIC contributors (excluding self-employed persons) and all civil servants
Contribution conditions	Contributions paid to the NIC for at least 12 months, with at least eight months during the 12-month period immediately preceding unemployment
Level of benefit	50 per cent of the average earnings over the 12-month period immediately preceding unemployment
Waiting period	Two weeks
Duration of payment	13 weeks (proportional to the number of months of contribution during the 20-month period preceding the event of unemployment)

Under such provisions, an initial contribution rate of 3.4 per cent of insurable earnings (shared equally between employers and workers) is recommended. This contribution rate should be revised every three years.

It must be understood that given the long duration of unemployment in St. Lucia (more than six months on average), the payment of unemployment benefits for a maximum of three months would only partially solve the problem of insufficient income during periods of unemployment. However, a UI benefit would provide at least partial relief to the unemployed. Moreover, a short period of payment would encourage the unemployed to search actively for new employment.

It is proposed that the UI benefit be financed on a pay-as-you-go (PAYG) basis, with the maintenance of a small contingency reserve equivalent to 12-month expenditure. This UI Fund would be administered by the NIC. The excess of contribution income over benefit expenditure during the first months of operation of the scheme would help generate the initial reserve. The UI Fund would be completely separate from other NIC operations for accounting and financing purposes.

On the basis of 2003 figures, in the context of a fully implemented scheme, UI would generate annually EC\$22 million in contributions, with expenditures of EC\$20 million in benefits and EC\$2 million in administrative expenses. Total expenditures would represent 1 per cent of GDP.

1. Objectives of an unemployment insurance benefit

While almost all industrialised countries have some form of unemployment insurance, Barbados remains the only Caribbean country with an unemployment insurance (UI) benefit (introduced in 1981). Such a benefit provides 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 a UI benefit in place.

UI benefits have both primary and secondary objectives.¹ 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 primary objectives of UI benefits are to:

- Provide cash payments during involuntary unemployment;
- Maintain to a substantial degree the unemployed worker's standard of living;
- Provide time to find employment consistent with their skills and experience;
- Help unemployed workers find jobs.

The secondary objectives are to:

- Stabilise the economy during recessions by enabling unemployed workers to maintain their personal income and consumption spending;
- Promote better utilization of labour by encouraging unemployed workers to find appropriate jobs and, where necessary, helping them to improve their job skills;
- 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.

¹ From: Rejda, George E. 1994. Social Insurance and Economic Security, 5th edition (Prentice Hall, USA)

2. Unemployment situation in St. Lucia

2.1 General labour force data

General labour force data are available from the preliminary results of the 2001 Census. The labour force information is summarized in Table 2.1.

Table 2.1 Portrait of the labour force of St. Lucia according to the 2001 Census

Population aged 15 and over	105,044
Total labour force	64,652
Employed persons	52,427
Unemployed persons	12,225
Labour force participation rate	61.5%
Unemployment rate	18.9%

Source: Saint Lucia Government Statistics Department, preliminary Census 2001 results.

The total number of employed persons of the 2001 Census may be subdivided as shown in Table 2.2. According to the Seventh Actuarial Review of the National Insurance Fund as of 30 June 2000, the number of contributors to the NIC was 41,151 in 2001. Out of this number, 32,921 are assumed to pay contributions on a continuous basis (to approach the definition of employed person of the labour force survey). This number does not include civil servants who do not contribute to the NIC, except for new entrants since 2003.

Table 2.2 Assumed distribution of the employed population (2001)

NIC contributors (at any point in time during the year) ²	32,921
Civil servants (permanent)	4,165
Informal sector workers ³	15,341
Total employed persons	52,427

2.2 Formal sector data

Labour force data of the National Census include both the formal and the informal sectors of the economy. Since an eventual UI benefit would cover only the formal sector, an unemployment rate and a specific unemployment pattern has been estimated for the formal sector only.

2 Assuming that 20 per cent of the NIC contributors are unemployed at any time during the year, then 32,921 persons pay contributions to the scheme on a continuous basis. Some 3,867 non-permanent civil servants are considered included in the number of NIC contributors since they do not participate in the Civil Service Pension Plan.

3 Including self-employed persons not paying NIC contributions

In order to establish the unemployment pattern of NIC contributors, a file has been built from NIC records. This file contains monthly data on the amount of contributions paid by all insured persons who were in the database in 1998 (36,000 records) for each month of the period 1998 to 2001. For the purpose of the analysis, the absence of contribution for a month was interpreted as a month of unemployment.⁴ The NIC file was used to determine, over the period of observation of four years, how many different periods of unemployment NIC contributors have experienced, along with the average duration of each unemployment spell. Despite the limits of the method, a general view of the unemployment pattern of NIC contributors may be drawn. The results appear in Table 2.3.

Table 2.3 Number and average duration of unemployment periods among NIC contributors

Number of periods without payment of contributions over the four year period	Proportion of insured persons in that category	Average duration of each spell
0	18 %	0 months
1	31 %	11 months
2	26 %	9 months
3	13 %	7 months
4	7 %	5 months
5 and more	5 %	4 months

Source: NIC Training and Research Department. Statistics were adjusted in order to match the density factors of the Seventh Actuarial Review of the National Insurance Fund as of 30 June 2000.

The large proportion of insured persons who have experienced three or more periods of unemployment seems to indicate the presence of a larger number of seasonal workers. The structure of the economy in St. Lucia supports this observation. The eligibility and benefit provisions discussed in Section 4 will take into account this reality. Article 24(4) of the ILO Convention No. 102 prescribes that the duration of payment of the unemployment benefit and the waiting period should be adapted to the conditions of unemployment of seasonal workers.

According to that data, it would appear that, on average, NIC contributors are unemployed during 25 per cent of the year. One element that is not taken into account in the calculations is non-compliance of contribution payments by employers. This phenomenon may increase artificially what appears to be unemployment; people may in fact be working but contributions are not paid to the NIC. Another factor that may increase the number of months with zero earnings is the fact that some insured persons may have received sickness or maternity benefits during those periods.

In the absence of precise data concerning these various factors, we can tentatively assume that the unemployment rate could be reduced to 20 per cent (instead of 25 per cent) for NIC contributors when looking at national figures on unemployment. If we add civil servants to this population and assume that civil servants experience no unemployment, then the global unemployment rate in the formal sector (corresponding to the population who would be covered by an eventual UI benefit) would be 18.2 per cent. (see Table 2.4)

Table 2.4 Distribution of the labour force in the formal sector (2001)

Employment	37,086
Unemployment	8,230
Labour force	45,316
Unemployment rate	18.2 %

4 Unemployment for only part of a month does not appear as a month of unemployment in the NIC file since an amount of contribution is recorded for that month.

3. Administration of unemployment insurance

3.1 Administrative functions

Unemployment insurance (UI) is probably the most difficult of all social security benefits to administer, in view of the need to prevent the simultaneous receipt of unemployment benefit and earnings from work. Benefit claims must be carefully checked and efforts of jobseekers to find employment closely monitored, necessitating a well-staffed Employment Service.

The main administrative tasks involved in running a UI benefit are:

1. Registering workers and employers;
2. Collecting contributions;
3. Recording contributions and insured earnings;
4. Registering benefit claimants as unemployed and receiving their benefit claims;
5. Checking that claimants are involuntarily unemployed, available for work and actively seeking employment; monitoring that this continues to be the case as long as benefit is payable;
6. Processing benefit claims, checking fulfilment of contribution condition, calculating and paying benefit.

The first three tasks are unlikely to involve much additional work for a social security institution like the NIC, which is already administering other branches of social insurance, provided that the coverage of the UI benefit and the definition of insurable earnings are identical to that of the existing schemes. The NIC already has efficient contribution collections and claims processing systems. The NIC is also in the position to check if the claimant for unemployment benefits is also claiming sickness, maternity or employment injury benefits for the same period.⁵

If it is decided to cover all civil servants under the UI benefit⁶, the same contribution collection system as the one presently used for newly appointed government permanent employees should be extended to collect UI contributions from all civil servants. As the administrative mechanisms linking the central government payroll system and the NIC are already in place for a portion of government employees, the inclusion of a collection mechanism for contributions on behalf of all civil servants should be straightforward.

For the verification of unemployment and continued eligibility to a benefit, a combined mechanism involving the NIC and a separate independent Employment Service should be used. While NIC inspectors may play a limited role, a separate Employment Service will be best suited to check 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. Together with the typical NIC functions, these make the administration of an unemployment benefit more complex and difficult than the other regular tasks performed for other social security benefits. Therefore, proper planning leading to the selection of the employment agency and a clear description of their mandate is required.

5 Since one condition to receive UI benefits is to be available for work, a person could not collect UI benefits and, for the same period, sickness, maternity or employment injury benefits.

6 Newly appointed government permanent staff contribute to the NIC since January 2003.

The introduction of UI 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 UI benefit has to be accounted for separately, but this is a simple matter of allocating the relevant percentages of total contribution revenue to the accounts for the various schemes.

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 very simple and 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 actively seeking employment is undoubtedly the most complex and difficult aspect of administering an unemployment insurance benefit. A certain number of workers may deliberately set out to defraud the scheme by claiming benefits and at the same time receive 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 duly insured and that none are claiming an unemployment benefit at the same time as working.

Processing benefit claims will of course mean additional work and will require ready access to the individual contribution records of the workers concerned. 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.

Checking the fulfilment of contribution conditions and calculating benefits require data on recent earnings and UI contributions paid. Contribution records are never fully up-to-date. Employers have a certain period of time in which to pay contributions (following the end of the month concerned) and many in practice pay later. Additionally, it takes time to enter all the data into the individual contribution records. To facilitate the benefit claims process, two options can be envisaged:

Option 1: A Termination Certificate could be filled by the employer at the termination of employment, providing the amounts of earnings and UI contributions paid during the two months preceding unemployment, or

Option 2: The application of the eligibility test (e.g. number of paid contributions over the last 12 months) and the calculation of benefits could be performed based on the period ending two full months preceding the starting date of unemployment. For example, for an unemployment spell starting on 15 April 2004, the NIC would use the information recorded for the claimant up to the month of January 2004 to determine if the person has contributed for the minimum required period between 1 February 2003 and 31 January 2004. And if the benefit is determined as a percentage of the average earnings of the previous 12-month period, the same period (1 February 2003 to 31 January 2004) would be used for averaging insurable earnings. The records of the NIC thus have more chance to be up-to-date and this would avoid the need for employers to fill a Termination Certificate. In some cases, however, the use of the most recent information (up to the month just preceding unemployment) could be to the advantage of the worker, helping him/her to meet the eligibility conditions or generating a higher level of benefit. In those cases, the unemployed worker should have the opportunity to ask for the use of the last two months' information for eligibility and benefit determination and the employer should be contacted to complete the information.

Some of the tasks presented at the beginning of this section (numbers 1 to 3) can be performed only by the NIC, while others (numbers 4 and 5) can be performed only by the Employment Service. There is therefore an obvious need for close coordination between these two agencies. Ideally, before the Employment Service embarks on the time-consuming task involved in number 5 (checking that claimants are involuntarily unemployed, available for work and actively seeking employment), it would be useful to check whether or not the claimant in fact fulfils the contribution conditions for receiving unemployment benefits (a component of number 6). This would be feasible only if individual staff members in the Employment Service could consult the social security institution's database.

3.2 Job placement

An essential role for the agency certifying that claimants are eligible for an unemployment benefit is the matching of vacant positions with suitably skilled workers. Such a service could assist employers in rapidly finding the persons with the right skills and in reducing the time for which employees with special skills may be without work. To achieve these objectives, the following steps should be followed for each unemployment benefit claim:

- Enable the initial claim for unemployment benefits and initial registration as a jobseeker to be made simultaneously;
- Ensure that active job search commences as soon as possible after loss of job;
- Regularly test that active job-search efforts are being maintained by the UI recipient.

Entitlement to cash benefits from the initial claim to cessation will be determined through the partnership between the NIC and the Employment Service; the NIC will apply the insurance rules while the Employment Service will be responsible for the labour market conditions. The NIC will pay the weekly benefit at each stage only when the Employment Service forwards information obtained through regular contacts with the claimant.

3.3 Training

While the principal focus of a UI benefit is to replace earnings, the programme may also be used as part of an overall policy directed at promoting employment and facilitating training or retraining. Additional guidelines are provided under Article 7 of the ILO Convention No. 168. Close coordination between the National Skills Development Centre, the Employment Service, employers and the NIC will be required to make sure that this function is undertaken with efficiency. More specifically, the National Skills Development Centre should:

- Maintain a register of external training providers;
- Maintain a register of training courses available;
- Maintain a register of applicants for training;
- Record results of training assessments;
- Arrange for training delivery;
- Monitor training progress;
- Maintain training histories of unemployed workers;
- Regularly advise the Employment Service of satisfactory attendance of trainees for continuance of payment of unemployment benefits.

3.4 Organizational responsibilities

The administrative functions described in Sections 3.1, 3.2 and 3.3 should be carried out by governmental administrative bodies as illustrated in Table 3.1:

Table 3.1 Coordination of administrative functions in the context of the introduction of a new unemployment insurance programme

National Insurance Corporation <ul style="list-style-type: none">– Collection and recording of contributions– Processing of claims– Payment of benefits– Financial management of the UI Fund– Fraud prevention and detection
Employment Service (under the Ministry of Labour Relations, Public Service and Cooperatives) <ul style="list-style-type: none">– Provision of jobseeker services– Skills assessment– Job vacancies– Job matching– Assessment of training needs– Collaboration with the NIC in checking that claimants are involuntarily unemployed, available for work and actively seeking employment
National Skills Development Centre <ul style="list-style-type: none">– Training delivery

The policy on employment services and skills development will remain in the hands of the Ministry of Labour Relations, Public Service and Cooperatives. The Ministry can ensure a close linkage between the policy for UI, the Employment Service and the National Skills Development Centre so as to ensure a coherent and equitable approach.

4. Design of the scheme

This section presents the possible design of an unemployment insurance (UI) benefit adapted to the situation of St. Lucia. The recommended provisions aim at containing expenditures in a context of high unemployment.

In designing a UI benefit, the following issues have to be considered:

- Who will be covered?
- What will be the eligibility requirements for benefit?
- What level of benefit will be paid?
- How long will it be paid?

In addition to learning from the experience of other countries having introduced unemployment insurance measures, attention is drawn to accepted social insurance principles in the case of the contingency related to unemployment and applicable guidelines found in the ILO Conventions and Recommendations such as:

- Convention No. 102 of 1952 concerning the minimum standards of social security (cf. Articles 19 to 24);
- Convention No. 168 of 1988 on employment promotion and protection against unemployment;
- Recommendation No. 176 of 1988 on employment promotion and protection against unemployment.

4.1 Coverage

4.1.1 Self-employed persons

UI benefit usually covers only those who are in regular, paid employment – that is those at risk of becoming involuntarily unemployed. Self-employed persons are generally not covered because they have complete control over whether they work or not and thus it is conceivable that abuse of the scheme could arise. It is recommended therefore to exclude self-employed persons from coverage (provided their participation is voluntary).

4.1.2 Civil servants

For permanent government employees, who in many countries have historically been at very low risk of being involuntarily unemployed, coverage varies. Presently, civil servants do not contribute to National Insurance. Since January 2003 however, newly-appointed permanent staff now contribute to the NIC and will not be eligible for the civil service pension financed from the Consolidated Fund.

The decision as to whether UI coverage should be provided to permanent government employees should be based on considerations of whether there truly is a need for insurance from job loss as well as on solidarity with all other workers in the country. Including them will bring two key advantages. Firstly, it will enhance the solidarity among formal sector workers, where all contribute and all can benefit. Secondly, the inclusion of an extra 10 per cent of the workforce will broaden the collection base of the scheme and, since claims incidence from the government sector will likely be lower than for other groups, their inclusion will result in a lower contribution rate being required from all contributors.

In today's economic environment, where increasing productivity and improving efficiency is paramount, civil servants as a group may not be as secure in their employment as in the past. Therefore, there is a risk of a permanent civil servant being involuntarily unemployed, although a smaller one than that in the private sector, and thus coverage under a UI benefit would meet conditions for insurability. It is recommended to cover all civil servants.

4.1.3 Seasonal workers

A certain number of workers commence work on the understanding that the job will cease or be interrupted for several weeks or months due to seasonal factors such as tourism or agriculture. The temptation would be strong to exclude them from entitlement to a UI benefit. However, to adequately define a seasonal worker for contribution payment and benefit entitlement purposes may be difficult given that some workers may combine seasonal and non-seasonal work during a year. In other cases, a job intended to be regular may turn out to be seasonal (or vice versa) for economic or business reasons.

The aims of UI should also be to establish protection most appropriate to seasonal workers and their interests as well as maintaining fairness in relation to all other workers covered. Instead of systematically excluding seasonal workers from UI coverage, it is proposed to deal with this issue by:

- Adapting the contributory requirement for eligibility to benefits;
- Averaging earnings used in the determination of the benefit over a longer reference period;
- Paying benefits for a duration linked to the period of contribution payments and adapted otherwise to their employment conditions (concrete calculation should be determined).

Reference is made to Article 24(4) of the ILO Convention No. 102 and to Articles 17(2), 18(3) and 19(6) of the ILO Convention No. 168.

4.2 Eligibility conditions

Unemployment benefits are usually subject to the condition that the claimant is:

- Involuntarily out of work;
- Registered as unemployed with the Employment Service;
- Capable of working;
- Available for and actually seeking employment.

Eligibility for benefit also depends on having been in insured employment for a certain qualifying period. The payment of unemployment benefits is thus dependent on the existence of a sufficient individual record of contributions. ILO Convention No. 102 does not give any specific indications regarding the length of the qualifying period, mentioning only such qualifying period as may be considered necessary to preclude abuse.

It is recommended that a person would need to have contributed for at least 12 months since registering with the NIC, and that eight of those contributory months would be included during the 12-month period immediately preceding the occurrence of unemployment. The case of seasonal workers would likely require different requirements adapted to their employment conditions.

Provisions are also usually made for requiring a minimum time period between two successive periods of unemployment benefits (two periods of unemployment separated by only a few weeks may be considered as the same claim and thus limit the total duration of payment). We recommend that this period be fixed at 13 weeks.

When deciding on the eligibility criteria, special consideration may have to be given to typical employment patterns in economic sectors that are traditionally seasonal, such as in the hotel and tourism industries. This issue could be dealt with either by introducing contributory requirements adapted to such workers, or instead, by providing a different method of calculating benefits that is related to the contributions paid over a certain period. Reference is made to the stated objective of the Jobseekers Allowance programme of the United Kingdom which provides benefits as a form of temporary support to maintain the employability of the jobseeker.

4.3 Level of benefits

In deciding on the benefit structure, consideration must be given to the benefit rate and to the wages to be used as the basis for calculating the benefit. While the level of benefits should be sufficient to allow the recipient to maintain a certain standard of living, it should not be excessive in order to maintain an incentive to seek new employment.

4.3.1 Benefit rate

The benefit rate refers to the percentage that will be applied to the average-insurable wage. For sickness and maternity benefits, this rate is now 65 per cent. For an unemployment benefit, the rate could be lower, and it could also decline over time. For example, if the benefit is to be paid for a maximum of 26 weeks, the first half of the period may be paid at one rate and the remaining period at a lower rate. This structure often serves as an incentive for recipients to actively seek employment.

The ILO Social Security (Minimum Standards) Convention, 1952 (No. 102) requires that unemployment benefit (including any family allowances payable) shall be not less than 45 per cent of previous earnings (also including any family allowances), in the case of a standard beneficiary (a man with a wife and two children). It further requires that any maximum limit on insured earnings should be fixed sufficiently high to ensure that the minimum of 45 per cent is attained for all workers with previous earnings equal to or less than those of a skilled male manual worker. The Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168) is slightly more demanding, as it places the corresponding minimum at 50 per cent of previous earnings.

For the introduction of a UI benefit in St. Lucia, a benefit rate of 50 per cent is recommended initially. It would limit the initial cost of the scheme and would ensure that unemployed persons keep an incentive to return to work as soon as possible.

4.3.2 Reference earnings

To ensure that the unemployment benefit bears a close relationship to the claimant's earnings, insurable wages in a period just preceding unemployment should be used as the basis for determining the weekly benefit amount. A 12-month period would be a reasonable period over which to average insurable wages in order to reflect the recent earnings level and, at the same time, to avoid penalising workers with a few weeks of low wages immediately preceding unemployment. This definition of reference earnings would also deal indirectly with the issue of seasonal workers by lowering the benefit amount for persons who are regularly and systematically unemployed for fixed periods during the year.

4.3.3 Minimum benefit

Like for other NIC benefits, a minimum benefit could be introduced to cover cases where wages in the reference period are extremely low. The unemployment benefit, in addition to replacing previous earnings, should provide sufficient income to face basic expenses during the period of job-seeking or retraining. The minimum benefit could be established at a level consistent with the minimum applicable to other NIC beneficiaries. Article 66 of ILO Convention No. 102 provides a standardized method to determine the level of the minimum benefit.

4.3.4 Partial benefit

Some UI benefits also pay a reduced unemployment benefit when a worker is partially unemployed and/or has partial loss of earnings. In Barbados, this is referred to as ‘short-time.’ Such a definition of unemployment would cover a part-time worker who earns less than the weekly benefit amount. In such a case, the benefit would be determined differently, possibly only taking the sum of the wages plus the benefit up to the amount the benefit would have been had the worker being completely unemployed. This ‘add-on’ to the typical unemployment benefit would, however, create additional complexities for benefit administration and thus may not be considered when the scheme is first established. The introduction of such a provision could be investigated later.

4.4 Duration of payment

4.4.1 Waiting period

A waiting period before benefits commence should be included. This waiting period avoids having persons who are unemployed for very short periods claiming for only a few days between jobs. Therefore, it serves mainly to reduce the cost of administration. There is no single established preferred length of waiting period, as evidenced by the comparison of four countries in Appendix III – three days in Barbados and Cyprus, two weeks in Canada and one month in Venezuela. A waiting period of two weeks is recommended for St. Lucia. It must be mentioned that Article 18 of ILO Convention No. 168 precludes a waiting period longer than ten days. Reference is made to Article 24 (3) of ILO Convention No. 102. However, if the unemployment lasts for more than two weeks, the unemployment benefits would be paid retroactively from the first day of unemployment.

4.4.2 Maximum duration

The maximum number of weeks for which benefits could be paid could either be a single fixed period for all claimants (for example, 13 or 26 weeks) or vary depending on the number of contributions made since the last claim for unemployment benefit. Even with the latter option, however, a maximum period should be in place. The maximum length of the benefit period affects both the costs of the scheme and a claimant’s motivation to find new employment.⁷

It is common practice to tie personal benefit entitlements to certain periods of contribution payments. This is what is recommended for St. Lucia. Under the proposed rule, the number of weeks of benefits would be determined according to Table 4.1, considering the number of months of contribution in the 20-month period preceding the onset of unemployment. The minimum benefit duration would be five weeks (given the eligibility criteria proposed in Section 4.2) and the maximum benefit duration would be 13 weeks.

⁷ In terms of costs, a scheme that pays a maximum of 13 weeks may cost 75 per cent of a scheme with maximum benefit duration of 26 weeks. This is because claims that extend beyond 13 weeks will not all reach the maximum of 26 weeks.

**Table 4.1 Length of unemployment benefit as determined
by length of contribution**

Contributory requirement (no. of months of contributions made over 20-month period immediately preceding the onset of unemployment)	Benefit duration (no. of weeks)
8	5
9	6
10	6
11	7
12	8
13	8
14	9
15	10
16	10
17	11
18	12
19	12
20	13

If a benefit entitlement is fully exhausted, then a new time frame starts and only periods worked after the last spell of unemployment would count towards benefit calculation. The duration of benefits is linked to the period of contributions made during the previous year. The proposed rule should be adapted in the case of seasonal employment.

ILO Convention No. 102 states that the payment of unemployment benefit may be limited to 13 weeks within a period of 12 months. In ILO Convention No. 168, the corresponding period is 26 weeks (cf. Article 24(2) of the ILO Convention No. 102).

5. Financing

5.1 Contribution rate

From a macro-perspective, prevailing economic conditions dictate the level and structure of unemployment in a country and affect the eventual cost of a programme that provides individuals with temporary income-replacement benefits between jobs. Design factors also affect cost as more liberal eligibility conditions and generous benefits create greater benefit costs. The specific factors that will affect the estimated costs of an unemployment insurance (UI) benefit in St. Lucia are the:

1. Benefit rate or the rate applied to average wages (presently 65 per cent for sickness benefit);
2. Eligibility conditions, waiting period and maximum benefit duration;
3. Average benefit duration;
4. Percentage of contributors that will be awarded a benefit each year;
5. Relationship between the average wage of contributors and the average reference wage relevant to beneficiaries.

While the scheme's structure can be directly impacted by points 1 and 2, points 3 to 5 will be dictated by personal behaviour, the structure and nature of unemployment as well as the general economic climate at different periods.

For a scheme designed as proposed in Section 4, the contribution rate could be fixed initially at 3.4 per cent of insurable wages.⁸ Other scenarios as regards the level of benefits are possible. For example, a benefit level of 60 per cent of previous earnings (instead of 50 per cent as in the recommended scenario) would bring up the required contribution rate to 4.1 per cent (instead of 3.4 per cent). A replacement rate of 70 per cent would require a contribution rate of 4.8 per cent.

The earnings ceiling presently applied to NIC contributions and benefits would also apply to UI contributions and benefits. The earnings ceiling prevents the payment of overly generous benefits to highly-paid individuals. An earnings ceiling is a common provision in UI benefits worldwide.

A new unemployment benefit should be financed with a separate UI contribution, paid by both the employer and employee. No portion of the current NIC contribution should be allocated to a new unemployment benefit. While the distribution of that contribution rate need not be 50/50, equal shares by worker and employer are recommended. Even though payment may go to the NIC, this rate should be differentiated from other NIC contributions and be set aside strictly for the payment of unemployment benefits and expenses related to their administration. The UI contribution should benefit from the same tax treatment as the contributions collected by the NIC.

On the basis of 2003 figures, in the context of a fully-implemented scheme, UI would generate annual revenues of EC\$22 million, with expenditures of EC\$20 million in benefits and EC\$2 million for administrative expenses and other purposes (cf. Section 5.3). Total expenditures would represent 1 per cent of GDP.

8 As a benchmark, Barbados had a global unemployment rate of 10 per cent in 2001. Barbados' Unemployment Benefits Scheme provides a 60 per cent replacement rate, average benefit duration of 11 weeks and benefit costs of 1.9 per cent of insurable wages in 2001. Further details on Barbados' Unemployment Benefits Scheme appear in Appendix I.

Given the cyclical nature and volatility that is involved with unemployment benefits, frequent rate revisions may be necessary. Therefore, continued monitoring of experience and informed short-term projections of expenditure are required. At a minimum, an actuary should review the contribution rate at three-year intervals so that rate revisions can be recommended to avoid either overfunding or depletion of reserves. Such scheduled actuarial reviews should not, however, preclude rate changes from taking place between reviews, should they become necessary.

5.2 Level of reserves

The general nature of unemployment benefits is that contributions made in the recent past qualify workers for a short-duration benefit, when the worker involuntarily ceases employment. Therefore, the most appropriate funding method for such a benefit is pay-as-you-go (PAYG). Under this approach, current scheme income should be just sufficient to meet current expenditure. On the other hand, a UI benefit should be financed in such a way as to contribute to a counter-cyclical stabilization of the economy. Its revenue income should remain as stable as possible over time and especially its contribution rate should not be increased with the onset of a recession, as this would only make the recession worse. This implies the need for some form of dedicated reserve that can be used during periods of recession.

Thus a small reserve should be set aside to cover costs should expenditure temporarily exceed income. A reserve equal to twelve months of the scheme's expenditure would be sufficient to leave time for an adjustment of the contribution rate in case of unfavourable experience. Some variation of the reserve below or above that level may be tolerated before considering a modification of the contribution rate.

If the UI benefit is administered by the NIC, a new fund, possibly called the Unemployment Insurance Fund (UIF), should be created. This would be distinct from the creation of a new branch of the National Insurance Fund. This new fund should be operated on a stand-alone basis with income generated from the explicit unemployment contribution rate and investment income on UIF assets. Expenditure will be the actual cost of unemployment benefit claims and an administrative charge payable to the National Insurance Fund.

According to the suggested rule, the UI reserve would represent approximately EC\$11 million if the scheme were fully implemented in 2003. The excess of contribution income over benefit expenditure during the first months of operation of the scheme would help generate the initial reserve.

5.3 Cost of administration

The additional cost to the NIC for the administration of the UI benefit is estimated at EC\$2.0 million per year. It is considered that the marginal cost for registration of employers and workers, and contribution collection and recording would be limited, given that the NIC already has processes in place for these tasks. The principal increase in administrative costs for the NIC would be related to benefit processing of UI claimants⁹, requiring that the NIC hires additional staff and develops and maintains new computerised systems for the exchange of information with the Employment Service.

9 UI claimants must, in principle, visit the NIC premises more frequently than most other types of beneficiaries throughout the entire time over which they receive UI benefits to verify their unemployment status and to take other actions such as services related to job search assistance and re-training. Other countries who are exploring the possibility of introducing UI programmes often realize the need to significantly increase counter-services and staff.

The cost of administering the UI benefit should be a charge to the UIF and income to the NIF. The amount of the charge could be determined by estimating the increased cost to the organization of the administration of the new benefit. This cost could be quoted in several ways, two of which are “per claim processed” and “fixed percentage of insurable earnings”.

The cost related to the development of the Employment Service and of the National Skills Development Centre for the benefit of the UI benefit is presumed to be supported by the Ministry of Labour Relations, Public Service and Cooperatives. The Employment Service and the Skills Development Centre will provide services to the whole population of Saint Lucia and not only to persons covered by UI. It is thus equitable that they are financed by general taxation. As an estimate of the cost related to the operation of a fully functional Skills Development Centre, assuming that 10 per cent of UI claimants would require the help of the Centre, a staff of ten people to register trainees, arrange training and link with the Employment Service, plus the cost of training programmes themselves would amount to roughly EC\$1 million per year. A more detailed analysis of present government structures and a potential recipient’s profile would be required to determine a precise estimate of costs for the Employment Service and the Skills Development Centre.

6. Other issues

6.1 Role of employers

Along with paying the employer portion and submitting monthly remittances to the NIC, additional cooperation between the employer and claims administrators will be required. If it is decided to use the most recent information on paid contributions for eligibility and benefit determination (see Option 1 in Section 3.1), employers will be required to prepare a Termination Certificate that indicates the reason for the termination of employment, as well as the amount of earnings and NIS contributions for the two months preceding unemployment. The information on such a form will be very important in verifying the eligibility of the claimant to the benefit (reason for unemployment) and will provide the information not already recorded in the NIC files due to delays in contribution payment or processing.

In addition, employers should be actively involved in a job-matching service where vacancies are publicised and individuals indicate their willingness to work. Employers could also play a pivotal role in any training aspect of an unemployment insurance programme. In this regard, special incentives may be created to enhance the interest and participation of employers, in coordination with the National Skills Development Centre.

Finally, in a small developing country, it may be morally more difficult for employers to lay off workers even when dictated by economic or business reasons. With a UI benefit in place, employers may be less concerned about the social implications of cutting staff. Therefore, despite an initial rise in unemployment following the introduction of a UI benefit, this may result, in the medium- and long-term, in more efficient businesses and better-skilled workers who may receive training while unemployed.

6.2 Delay before first benefit paid (at UI implementation)

The present high level of unemployment (18.9 per cent of the labour force) should not be seen as a deterrent to introducing a UI benefit at this time. While the scheme's expenditure will likely be higher when unemployment is higher, because a certain minimum number of contributions would be required before one can qualify for an unemployment benefit, currently unemployed persons will not be able to qualify when benefits first become payable. It would be only those who lose their jobs after working and contributing for the minimum period that would be able to receive the benefit.

The payment of benefits should begin no sooner than eight months after the first contributions are collected for UI, which corresponds to the minimum period of contribution required for eligibility to benefits. This will allow for a reasonable reserve to be accumulated while, as early as possible, enabling people to see the real benefits of the scheme.

6.3 Weekly basis for benefit payment

The NIC presently collects contributions on a monthly basis without explicit knowledge of the number of days or weeks actually worked in the month. For a new unemployment benefit, the same contribution and wage basis may be maintained but the benefit should be paid at weekly intervals. The benefit rate should be quoted as a weekly rate and all benefit durations should be in stated weeks. A weekly benefit frequency is necessary in order to ensure perfect coordination with the action of the Employment Service and to be able to cease benefit payments as soon as the unemployed person ceases to meet the requirements for eligibility (available for work and actively seeking employment).

The reference period for contributions, however, could be in months as this is the case for sickness and maternity benefits.

6.4 Fraud

In all social security systems there are attempts to obtain benefits through fraudulent means. For an unemployment benefit, several additional means will arise. The more common cases of fraud are related to UI claimants who work in the informal sector while collecting UI benefits. In other cases, collusion between the worker and the employer exists and the employer may indicate that the employment was terminated as a result of cutting staff while this may be a case of voluntary leave. There should be strict penalties in case of fraud. For example, in Canada, the penalty for fraudulent claimants may be up to three times the amount of overpayment. In addition, employers who engage in fraud, such as falsifying or selling a Termination Certificate are also liable for a penalty of up to 12,000 Canadian dollars or the total of the claimant penalties, in collusion cases.

6.5 Appeals

An effective system through which claimants can appeal denied unemployment benefit claims is essential. The NIC regulations already make provision for appeals, but the process adopted for pensions, sickness, maternity and employment injury benefits does not seem to be adapted to unemployment benefits because it requires that the Board of Directors meets on each case within 14 days. Considering the potential number of appeals, it appears burdensome to apply to unemployment benefit the same procedure as the one applied to other types of benefits. Because of the particular nature of unemployment benefits and the addition of a new player in the administration of the scheme (the Employment Service), the present appeal process of the NIC would have to be reviewed and made more flexible. For example, the appeal process could be separated into two types:

Incomplete information: Some claimants could appeal first on the grounds that the NIC took a decision based on incomplete information, for example concerning the past contribution record, the level of salary used in the determination of the benefit or the date of beginning of the unemployment period. An appeal could then be presented to the NIC, who would review the case internally (by a committee of managers) and make the correction on the basis of the new available information.

Rights: When the claimant considers that the information obtained by the NIC is complete, but disputes a decision of the NIC or a decision of the Employment Service on a question of rights, then the Appeal Board would receive the appeal.

The Appeal Board should be composed of representatives of the government, workers and employers. Persons not satisfied with the decision of the Appeal Board could eventually appeal to the courts.

6.6 Effect on future NIC contribution rate increases

The Seventh Actuarial Review of the National Insurance Fund that was recently presented to Parliament highlighted the need for the NIC contribution rate (now 10 per cent) to be increased in the future. Such an increase will be required to ensure that the Fund remains solvent as the population ages and the scheme matures.

The introduction of an additional contribution for a UI benefit will increase deductions from workers' wages and employers' contributions. Therefore, it would likely have the effect of making future rate increases for current benefits more difficult to sell to the public and get approved by the Government. The same applies to national health insurance, which is also being proposed at this time. Additional contributions demanded of employers and employees must therefore be seen as providing meaningful benefits to employees, employers and the society as a whole in order to be accepted.

6.7 Legal framework

In general, the Act governing UI contains the following sections:

- Covered workers and employers;
- Definition of the contingency and days of unemployment;
- Contribution conditions for eligibility to benefits;
- Benefit rates and duration, including the waiting period;
- Causes for disqualifications, including definition of suitable employment and the concept of good cause for employment termination;
- Provisions on non-duplication of benefits (notably with sickness, maternity and employment injury benefits);
- Recovery of overpayment;
- Rights of appeal against all decisions affecting entitlement;
- Penalties for offences under the Act.

Employers' and workers' organizations should be consulted at an early stage in the process of designing and implementing a UI system, and they should be involved throughout the entire process. Acceptance of UI by these groups is a necessity for UI to be successful.

ILO Convention No. 102 concerning the minimum standards of social security prescribes conditions to be met under its Articles 19 to 24.

6.8 Coordination with severance benefits

The labour legislation of St. Lucia presently provides for the payment of severance benefits for persons who have been employed for more than two years, in case the enterprise is closed down, reorganized or amalgamated. The benefit is equal to a multiple of the weekly pay per year of service. New legislation that would revise the present benefit levels is presently under discussion (see Appendix II for detailed provisions).

Employers may be reluctant to introduce a UI benefit, considering that they already support the cost of severance benefits. They may find that they pay twice for the same risk. However, it must be observed that severance benefits do not cover exactly the same risk as UI. Severance benefits are paid under certain circumstances only, while UI is paid in general without regard to the cause of unemployment. The amount of the severance pay is weighted in favour of employees with long-service history and, under the present law, employees with less than two years of service are not eligible for any benefit. Consequently, young workers would normally get low severance benefits or no benefit at all. In addition, severance benefits are not combined with measures to train and re-employ redundant employees.

It is possible for severance benefits and UI to coexist by adopting coordination measures between the two schemes. In accordance with ILO Convention 168, when a person has received severance benefits, it is possible to suspend the payment of unemployment benefits for a period corresponding to the compensation offered by the severance pay. For example, if the amount of the severance benefit paid to the redundant employee is EC\$2,000 and the unemployment benefit is determined to be EC\$200 per week, then the unemployment benefit would be suspended for ten weeks.

Alternatively, the severance pay may be reduced by an amount corresponding to the value of UI benefits paid. Under this second approach, the unemployment benefit would be paid from the first day, but the severance pay would be equal to EC\$2,000 minus the total amount of unemployment benefits paid, or EC\$2,000 minus (EC\$200 times the number of weeks of unemployment) under the previous example. The second approach has the disadvantage of postponing the timing of payment of the residual severance benefit.

6.9 Economic impact

The introduction of a UI benefit may have an effect on aggregate disposable income, consumption and savings. On the basis of 2003 figures, in the context of a fully-implemented scheme, UI would generate annually EC\$20 million in benefits. Total expenditures would represent 1 per cent of GDP.

The payment of benefits in areas of high unemployment could help to stabilise consumer demand. Benefit entitlement might deter some workers from seeking rapid reintegration into the labour market. But given a rather short duration of benefits, 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 cost and on the consumer price level in St. Lucia.

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;
- The temptation to establish other more costly and less effective schemes to provide protection in the event of job loss (employment assistance programmes).

Conclusions

Unless unemployment is at an all-time low, it may never be the ideal time to introduce an unemployment benefit that requires contributions from employers and workers. In St. Lucia today, the estimated unemployment rate is around 19 per cent. However, with a properly structured benefits package that is well promoted and sold as another means of providing additional security for workers, such a benefit could effectively serve workers, employers and the overall economy of St. Lucia.

The decision on whether or not a UI benefit will be introduced should therefore be made following a close look at the entire spectrum of social benefits and the areas that require most urgent attention at this time. It should also take account of the present economic environment as well as the effect that additional deductions from wages and contributions by employers will have on employment and individuals.

Apart from the financing aspect, the most important element to consider before introducing a UI benefit is the administrative capacity of the social security institution and of the Employment Service to undertake the various tasks required by the scheme. The best agency to administer an unemployment benefit programme would be the National Insurance Corporation. The NIC already conducts most of the processes required so only small modifications to computer and administrative systems should be required. To complement the work of the NIC, there should also be a properly organized and efficient Employment Service. The establishment of this service should precede the first benefit payment.

In addition to paying a weekly benefit, the scheme should also focus on aspects of training and retraining unemployed persons. A hands-on review of the operations of Barbados' Unemployment Benefits should also be conducted. This will highlight some of the practical aspects of operating such a scheme and enable those who will be responsible for administering the St. Lucia scheme to see firsthand the areas requiring special attention.

If a decision to introduce an unemployment benefit is made, it is recommended that one with a modest benefit and contribution rate be established at the outset. This implies a relatively low benefit rate, a low-maximum benefit period and a longer waiting period. In Barbados, for example, the benefits in 1981 were 40 per cent for up to 13 weeks, while today, after several adjustments, they are 60 per cent for up to 26 weeks. To allow workers to quickly see the advantages of having the scheme in place, claims may be allowed eight months after contributions are first collected. This may require special eligibility conditions and transition rules for the first two years but it should enhance the chances of early and broad acceptance.

Finally, the time frame for implementing a new scheme would be at least six months from the time that the decision to implement is made. This should allow adequate time for the final determination of the scheme's structure and for adequate public relations, as well as for the NIC to create the necessary forms and procedures.

Appendix I: Barbados' unemployment benefits

Within CARICOM, Barbados is the only country that has an unemployment insurance programme. This scheme is administered by the National Insurance Board and has been in existence since July 1981. The initial contribution rate was set at 2 per cent and shared equally by the employer and employee. Since then this rate has been adjusted six times but the 50/50 relationship between employer and employee has remained 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 are payable for up to 26 weeks. Tables AI.1 and AI.2 show the main changes made to benefit provisions and the contribution rate since 1981.

Table AI.1 Major changes to benefit provisions

Month of change	Benefit rate and 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

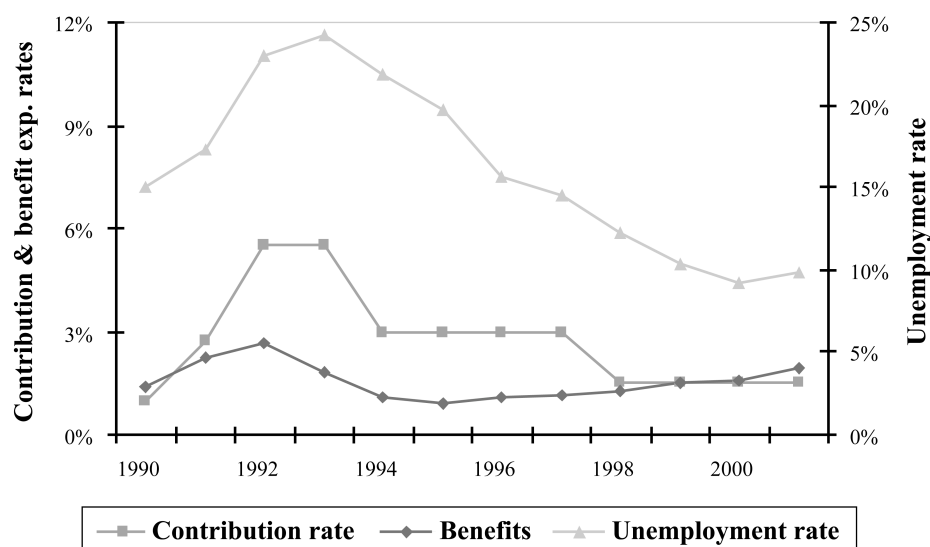
Note: AWIE = Average weekly insurable earnings

Table AI.2 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%

Figure AI.1 shows how the Barbados national unemployment rate changed between 1990 and 2001, how the UI contribution rate has been adjusted and the actual level of benefit expenditure. During a recession in the early 1990s unemployment reached almost 25 per cent. In response, the combined contribution rate was increased to 5.5 per cent and benefit expenditure 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 UI 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 AI.1 Barbados unemployment, contribution and benefit expenditure rates, 1990-2001



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, one must have been insured for at least 52 weeks, and
 - Have 20 weeks weekly contributions in the three consecutive quarters ending with the second quarter preceding unemployment;
 - Seven weekly contributions in the second 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 three days of a period of unemployment are treated as a waiting period. If however, unemployment lasts at least three weeks, benefit is payable from the first day.

Table AI.3 Highlights of recent unemployment benefit scheme experience in Barbados

	2001	2000	1999
Unemployment rate	10.4%	9.3%	9.9%
Contribution rate	1.5%	1.5%	1.5%
Expenditure as a per cent of insurable wages	1.94%	1.55%	1.49%
Average duration (benefit days)	69	67	68
No. of claims approved	15,946	10,533	10,570
No. of claims per thousand contributors	162	109	106

Appendix II: Summary of labour provisions concerning severance benefits

All.1 Provisions of the present law

Under the Contracts of Service Act No. 14 of 1970 and the Contract of Service Regulations, Statutory Instrument No. 38 of 1985:

Where an employee who has been continuously employed for two years is dismissed by his or her employer because the organization where he or she is employed is closed down, reorganized or amalgamated with another organization under a new name or change of ownership has taken place, the employer and/or the person with whom the employer has made the changes shall jointly be liable to payment of severance to the affected employee. The severance payment is calculated as follows.

Table AII.1 Current benefit formula for severance benefits in St. Lucia

Year 1-3:	1 week's pay per year
Year 4-7:	2 weeks' pay per year
Year 8 and over:	3 weeks' pay per year

The weekly pay used for the determination of the benefit is limited to a maximum of EC\$200.

All.2 Provisions of the proposed labour legislation

On termination of employment, an employee who has completed no less than two years of continuous employment with his or her employer is entitled to be paid by the employer a severance payment equivalent to:

- 1 week's basic pay for each completed year of service up to the first five years;
- 1.5 week's basic pay for each completed year of service in excess of five years and up to ten years;
- 2.0 weeks' basic pay for each completed year of service in excess of 10 years and not to exceed 26 weeks basic pay.

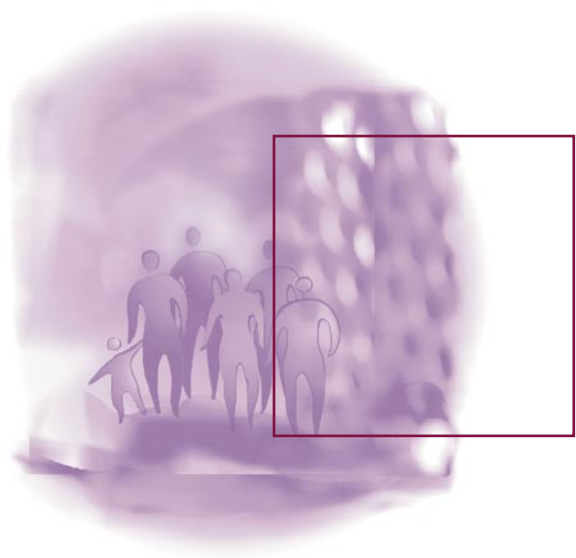
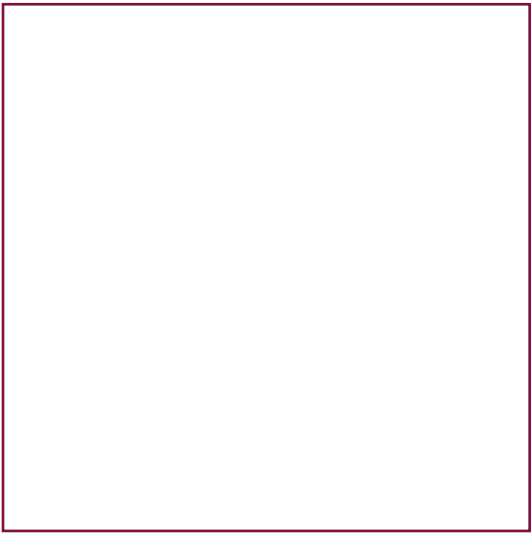
In the case of an employee earning more than EC\$500 per week, the basic pay is deemed to be 50 per cent of actual wages earned.

Termination of employment includes termination by reason of redundancy, winding up or insolvency, retirement or death of the employer.

Appendix III: Comparison of unemployment insurance provisions in four selected countries

Table AIII.1 Comparison of unemployment insurance provisions in four selected countries

	Barbados	Canada	Venezuela	Cyprus
Coverage	Employed persons aged 16-64, self-employed and permanent government employees excluded	All employed persons, excluding provincial and foreign government employees	Employed persons in public and private sector	Employed persons aged 16-63 (63-65 if not entitled to old-age pension)
Eligibility conditions	<ul style="list-style-type: none"> – 52 weekly contributions for at least seven consecutive days – 20 weeks of contributions in the three consecutive quarters ending with the second quarter preceding unemployment – Seven weeks of contributions in the second quarter preceding employment 	<ul style="list-style-type: none"> – Without work and without pay – In the last 52 weeks (or since last claim) have worked the required number of insurable hours 	<ul style="list-style-type: none"> – 52 weeks of contributions in 18 months preceding unemployment 	<ul style="list-style-type: none"> – 26 weeks of paid contributions – 20 contributions paid last year – Capable and available for work
Waiting period	3 days	2 weeks	1 month	3 days
Benefit percentage	60% of average weekly insurable earnings	55% of average insured earnings	60% of average insurable weekly weekly earnings during last 50 weeks	60% of insurable earnings up to the basic earnings, plus 50% of insurable earnings in excess of the basic earnings up to a maximum of 2 times the basic earnings (dependents' supplements payable)
Maximum duration of benefit	26 weeks	14 to 45 weeks, depending on the unemployment rate in the region and the amount of insurable hours accumulated in the qualifying period	13 weeks (can be extended to 26 weeks)	26 weeks
Financing				
– Insured person	0.75 %	2.20% <i>Also covers sickness</i>	0.50 %	0.38 %
– Employer	0.75 %	3.08% <i>and maternity</i>	1.70 %	0.38 %
– Government	None	None (<i>UI alone: approx. 2.6%</i>)	None	0.24 %



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