

LABOR MARKETS AND SOCIAL POLICY
IN A RAPIDLY TRANSFORMING AND AGING THAILAND

TOWARDS SOCIAL PROTECTION 4.0

An assessment of Thailand's social protection and labor market systems

EXECUTIVE SUMMARY



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This paper reviews Thailand's social protection (SP) and labor market systems, to assess how they can be strengthened to address the key trends that will shape its society and economy in the coming decades. Thailand's aging population, persistent high levels of workforce informality and the changing nature of work are already putting pressure on the current system, leaving most workers without protection from shocks or the ability to smooth consumption over their life cycle. For most of the growing elderly population, the small Old Age Allowance is the only form of income support. Although Thailand has made remarkable progress on poverty reduction

in the past two decades, the poverty rate ticked up in 2016 and again in 2018, due to a slowing economy, droughts and wage stagnation, and the economic impacts of COVID-19 will further erode hard-won poverty gains. Adapting to changing skill needs and increasing automation requires lifelong education and training to meet rapidly evolving labor demands.

The significant economic disruption caused by the COVID-19 outbreak tested Thailand's social protection system and offers lessons on how to strengthen it for the future.

Box 1 Social Protection and COVID-19

In 2020, the Government of Thailand initiated a rapid, comprehensive and effective social assistance response that is estimated to have reached more than 30 million individuals (approximately 81.5 percent of households). This included the mobilization of new emergency programs for informal workers and farmers, and through vertical expansion of existing social assistance schemes for the elderly, people with disabilities, children of poor families and for recipients of the State Welfare Card (SWC) program, Thailand's primary social safety net program for the poor and near-poor. **The total cost of transfers is estimated at B386 billion, or 38.6 percent of the government's one trillion Baht emergency response and recovery package.** This amounts to 2.29 percent of Gross Domestic Product (GDP) and is additional to regular social assistance expenditures.

An additional 16.5 million mostly formal sector workers were also covered by social security schemes, and unemployment insurance provided through these helped to stabilize workers affected by the crisis. The number of people receiving unemployment insurance benefits began increasing in the second quarter of 2020 during the height of the outbreak in Thailand rising to 491,000 in October 2020, almost three times the number a year earlier, before beginning to fall in the final two months of the year. Additionally, between April and November of 2020, 1.5 million people claimed unemployment benefits via special temporary measures put in place by the government. **However, the impact of unemployment insurance was limited by the high proportion of informal workers in Thailand, who do not receive unemployment benefits, hence the establishment of temporary assistance for this group.**

Like regular social assistance programs, emergency social assistance payments appeared to have been pro-poor and progressive – even though they were not explicitly poverty targeted. Lower income groups were more likely to receive emergency benefits than higher income groups. Informal workers were the main recipients of the program, as intended.

However, in contrast with regular social assistance, emergency B5,000 payments for informal workers and farmers were generous. Median monthly wages in non-agricultural sectors range from B6,600 to B8,320 per month. Top-up payments to regular programs increased their value significantly – in the case of the SWC, they increased from a basic B200 to B1,200 per month to spend on food and consumables between April and June 2020.

Delivery of rapidly mobilized social assistance programs in response to COVID-19 has led to innovations. These include online registration and the most comprehensive effort to date at cross-referencing social protection and other government databases to ensure broad coverage while avoiding duplication of COVID-specific payments. Even so, initial underestimates of how many people would need support due to COVID-19, delays in disbursement and public dissatisfaction due to data errors illustrate the need to improve beneficiary data management.

While COVID-19 continues to impact Thailand's economy, continued assistance to the poor and vulnerable, including informal workers, will be necessary. A new round of payments to informal workers, farmers and SWC-holders was announced in January during a 'second-wave' of infections and restrictions, along with reductions to mandatory social security contributions and other measures. Thailand should also consider ongoing top-ups for vulnerable groups like children, the elderly and PWD.

RECOMMENDATION 1: STRENGTHEN SOCIAL SECURITY COVERAGE AND ADEQUACY, INCLUDING BY SUBSIDIZING COVERAGE FOR INFORMAL SECTOR WORKERS.

As in many countries, the COVID-19 crisis has exposed the lack of coverage of informal sector workers. Thailand's social assistance programs reach most categories of vulnerable groups, including the poor, and the majority of people working in the formal private sector in Thailand are covered by mandatory social insurance schemes. By contrast, schemes for the informal sector are voluntary and despite matching contributions and different contribution rates offered to workers, they remain under-subscribed. Of the estimated 21.2 million informal workers in Thailand, just 3.24 million (15 percent) made voluntary contributions to the Social Security Fund (SSF) in 2019, and none of these are eligible for unemployment insurance under the terms of their coverage.

To address this gap, social security coverage should be de-linked from formal employment status, and social insurance premiums subsidized for most of the population. This would emulate the Thai approach to achieving universal health coverage, which effectively covered the costs of accessing healthcare for the 70 percent of the population not covered by schemes for civil servants and the private sector through the Universal Coverage Scheme (UCS). This approach retains the insurance principle and budgeting can be done on the basis of transparent actuarial calculations. The subsidies can also be differentiated according to the capacity of the individual to contribute.

Pension reforms are needed to ensure the adequacy of private sector pensions, and the sustainability of both public and private sector schemes. Private sector benefits are less generous than those in the public sector and unless ceiling rules are revised, the benefits will amount to even less over time, so that benefits from the SSF alone will not provide retirement security for private sector workers. The number of pensioners drawing from the SSF is expected to increase to ten million by 2059. The actuarial estimates for the baseline scenario suggest that cashflow deficits will emerge in 2041, and reserves will be exhausted by 2054.

Proposed policy actions:

- **Consider expanding minimum contingent coverage against shocks for informal sector workers, including for unemployment, as well as providing retirement income in old age.** This may mean further expanding government subsidies.
- **Improve the adequacy of existing pension schemes** by indexing retirement benefits to prices and indexing the wage ceiling on which SSF retirement benefits are calculated to wage growth (as is the case in most OECD countries).
- **Improve the sustainability and fairness of existing pension schemes** through parametric reforms including gradually raising the retirement age, actuarially fair adjustments for early or late retirement and raising the contribution rate once the COVID-19 crisis subsides.

RECOMMENDATION 2: IMPROVE THE GENEROSITY, DESIGN AND TARGETING OF SOCIAL ASSISTANCE PROGRAMS.

Thailand spreads its social assistance broadly but thinly, through a combination of categorical and poverty targeted programs with relatively high thresholds for inclusion. However, low spending and benefit sizes limit the impact of regular social assistance programs on poverty reduction.

Regular social assistance coverage in Thailand is high. 71.9 percent of all Thais – and 93.5 percent of the poorest quintile – benefit directly or indirectly from some form of **social assistance**. However, **social assistance expenditure remains relatively low compared to its peers**. Thailand is one of the lowest spenders on social assistance compared with its peers, investing just 0.77 percent of GDP, compared with the East Asia and the Pacific average of 1.1, and 1.6 percent for Upper Middle-Income Countries.

The value of benefits in Thailand are mostly low. For example, Thailand's social pensions represent just seven percent of household income overall, and 14 percent for the poorest quintile. This makes them among the least generous in the East Asia Pacific region. Monthly benefits from most of the major programs (Old Age Allowance: B600-1,000, PWD Allowance: B800, Child Support Grant B600) fall far below the national per capita poverty line of B2,710 per month. Although the maximum value of monthly State Welfare Card (SWC) allowances for food, transport and utilities (B2,145) is high compared to other social assistance programs, allowances are not aligned with needs and therefore not always claimed. In 2018, the maximum food/household consumables allowance of B300 represented just 14 percent of household expenditure on food for the poorest 20 percent of the population, while allowances for transportation and utilities are significantly over valued.

Access to a 'package' of benefits from multiple programs may increase adequacy but the system lacks the capacity to track what individuals and families receive. The poorest 40 percent of the population is more likely to benefit from two or more programs than the top 60 percent, and total income from several small programs may add up to a higher proportion of poor household consumption. However, the different programs manage separate beneficiary databases and registries, creating fragmentation. This makes it difficult to plan or monitor how benefits accrue to families, and whether they are adequate.

There is evidence that this broad sweep of social assistance ameliorates poverty, although the impact of individual programs is less clear. Between 2015 and 2018, "public assistance income", primarily from social assistance programs including the SWC program and social pensions, served to offset the economic effects of the slowing economy, droughts and wage stagnation on households, even though poverty still increased overall. An early impact evaluation of the Child Support Grant (CSG) showed promising results on human development indicators, especially on households living close to the poverty line, leading to the expansion of the program. However, studies have also found little or no impact of the social pension for the elderly on consumption expenditures and poverty, due to the low value of transfers.

Proposed policy actions:

- **Determine a maximum/minimum package of benefits that households may receive, based on assessment of how multiple benefits currently accrue to households, and where gaps, overlaps and opportunities for rationalization exist.** This will be critical going forward so ensure that beneficiaries receive **adequate support, and that the government is able to track what individual households receive. This may require raising benefit levels, and therefore spending, for some programs.**
- **Convert the current set of SWC allowances to a basic cash payment,** reducing the nominal value of the benefit while increasing its utility for recipients.
- **Consider adjustments to the way programs are targeted.** If reaching the poorest is a primary goal, attempting to narrow targeting may conversely lead to greater exclusion without other adjustments. Instead, Thailand could consider adjusting maximum thresholds for inclusion and greater affluence testing to reduce inclusion error, leveraging stronger data sharing and interoperability.
- **Harmonize targeting and enrolment for poverty targeted programs (primarily the SWC and CSG),** to create efficiencies.
- **Extend benefits to the informal sector and other vulnerable groups until the economy recovers.** This would represent a sound investment in poverty and inequality reduction, improving productivity, and enhancing resilience.

RECOMMENDATION 3: INVEST IN ACTIVE LABOR MARKET PROGRAMS TO TRANSITION TO DEMAND-DRIVEN SKILLS TRAINING AND EMPLOYMENT SERVICES INFORMED BY A REAL-TIME LABOR MARKET INFORMATION SYSTEM.

Thailand has a range of active labor market policies and programs, however these need strengthening. Active labor market programs targeting specific, under-employed groups, including the poor, women, people with disabilities and the elderly are available, but generally have low uptake. Employment incentives are aimed at increasing the number of People with Disabilities (PWDs) and senior citizens in employment, but the effectiveness of these incentives is uncertain. Although impact evaluations are scarce, recent evidence indicates that training does not have a positive impact on earnings or employment. Employment services are available to the general public and to other target groups such as elderly workers to encourage continued workforce participation, however the use of public employment services to find jobs has declined in recent years.

Short training courses offered to SWC holders appear to have had more success with uptake and with improving outcomes of beneficiaries. More than three million welfare card holders (around 22 percent) participated in government-provided career training over two phases in 2018 and 2019. A follow up survey of the 2018 cohort revealed that 80 percent of those surveyed later reported receiving a higher income following completion of training.

In both the short and long term, social protection will need to be complemented by labor market policies tailored to the needs of a knowledge-based economy. **In the short term, upskilling and reskilling workers displaced by the labor market disruptions caused by the COVID-19 outbreak will be essential.** Skills training programs will need to be targeted to labor demand in sectors that are recovering more quickly as the economy recovers. Given the weakness in labor demand, however, these training programs may also need to focus on promoting livelihoods and self-employment skills, particularly in rural areas.

In the longer term, Thailand's aging population and the changing nature of work will see the workforce shrink potentially creating skills shortages. Adapting to increasing automation requires lifelong education and skills training to meet evolving labor needs, and an unemployment insurance system with wider coverage to protect workers who lose their jobs as the nature of

work changes. But weaknesses in matching training programs to labor market demands and in providing effective employment services present a challenge at the very time when changing skills needs require them most.

Proposed policy actions:

- **Invest immediately in upskilling and reskilling programs to help workers displaced by the COVID-19 outbreak to find jobs.** Training can be linked to wage subsidies that incentivize firms to hire workers or to startup support to stimulate livelihoods opportunities. This training can be targeted to vulnerable groups, including those receiving social assistance, to encourage moves into wage employment and more sustainable self-employment. This approach could build on the experience of providing training and other assistance to SWC holders. Support could be expanded to include financial services, job search assistance, and access to markets. While Thailand continues to impose transmission control restrictions to combat the COVID-19 outbreak that affect normal business activity, employment retention schemes that incentivize employers to retain workers can also be implemented. But these should be time-limited and phased out as the recovery from the COVID-19 pandemic takes hold.
- **Invest in a labor market information system that could serve as a backbone for delivering effective labor market programs.** An advanced labor market information system not only supports basic employment services functions such as job matching and career and skills guidance, but also serves as a platform to coordinate government support for unemployment insurance, active labor market programs, and other government programs, and to generate real-time, demand-driven labor market information and analysis. A high-performing labor market information system is a necessary step in creating an outcome-based employment services and training system that rewards the provision of skills that are in demand and lead to good jobs. A system such as this, that rewards service providers who deliver improvements to beneficiaries' employment and wages, should be the ultimate goal of reforming active labor market policies.
- **Evaluate the effectiveness of existing active labor market programs.** Evaluations of active labor market programs in Thailand are scarce. Undertaking high-quality impact evaluations could help determine where interventions should be scaled up, better targeted, or eliminated.

RECOMMENDATION 4: ESTABLISH MORE COORDINATED AND COHERENT DATA GOVERNANCE AND POLICY MAKING FOR SOCIAL PROTECTION ACROSS GOVERNMENT.

Most foundational elements for social protection delivery – identification, financial inclusion, payment systems and mobile phone penetration – in Thailand are strong and well-established. Near universal coverage of Thailand's population registry and ubiquitous use of the 13-digit Personal ID (PID) number throughout administrative databases allows for ad-hoc cross referencing between data sources, primarily to exclude people who exceed income and assets tests or who are covered by formal social insurance. Financial inclusion is also high, with an estimated 82% of the population having a bank or financial account.

However, there is a need to improve beneficiary data management, and opportunities to link social assistance databases with other administrative databases to create a virtual social registry. Between Thailand's regular social assistance programs, its social security coverage and recent enrolment of 15 million informal sector workers for emergency COVID-19 benefits, the large majority of the population is likely now registered for some form of social protection. This is complemented by digitization of other registries, such as civil servants, taxpayer, land, vehicle, education and health information systems. The challenge is to harness this data through greater interoperability, sharing and matching capabilities, which will enable real-time and comprehensive decision-making. Furthermore, it will allow targeting to be automated, routine and more shock responsive. **Poor data quality in the Low-Income Earner's Registry, which is used for poverty targeting in the SWC program, has called its credibility into question and indicates a need**

for improvement. In the context of increased data exchange across government, personal data protection protocols should also be strengthened.

Thailand's social protection and labor system is fragmented, creating inefficiencies in program management, lack of clarity over investment impact, and missed opportunities for synergies and referrals between programs. Multiple agencies are responsible for planning, implementation and beneficiary data management, without a policy framework or strategy to show how multiple programs contribute to high-level goals, or effective inter-agency coordination.

Improving coherence and coordination in the system, including in data governance, would give the Government of Thailand a picture of the impact of overall expenditures, how benefits accrue to individuals and households, and where overlaps, gaps and opportunities lie for synergies and efficiencies between social assistance, social insurance and labor market programs.

Proposed policy actions:

- **Establish a virtual social registry** to support outreach, intake, registration and eligibility determination for all social assistance programs, **and introduce on-demand updating** to strengthen the collection of socio-economic data for programs targeting poverty.
- **Establish data sharing protocols and mechanisms for informed consent and put in place or strengthen privacy protections for personal data.**
- **Improve coherence of the social protection and labor systems** by developing a national social protection strategy and establishing inter-agency coordination, as well as leveraging the virtual social registry.

Table 1 Proposed sequence of actions and reforms

<p>0-6 months</p>	<p>Extend emergency payments through the SWC program into the first half of 2021. Open enrolments for SWC to allow newly impoverished individuals to register for assistance. Trial online enrolments to supplement existing face-to-face options, building online registration undertaken during COVID-19 restrictions.</p> <p>Invest in upskilling and reskilling programs to help workers displaced by the COVID-19 outbreak to find jobs, linked to subsidies (vouchers) that finance training and act as wage subsidies. Implement time-limited employment retention measures to protect jobs in the short-term while transmission control measures remain in place.</p>
<p>6-18 months</p>	<p>Establish an inter-agency coordination mechanism for social protection and labor programs, under the auspices of the Office of the Prime Minister or the Ministry of Finance.</p> <p>Undertake further analysis of how regular and emergency social protection benefits and services accrue to individuals and households. Review social assistance registries, eligibility criteria and overlaps.</p> <p>Evaluate the effectiveness of existing active labor market programs. If appropriate, expand active labor market schemes for SWC holders, building on lessons from the first two rounds in 2018 and 2019.</p> <p>Draft social protection and labor market strategy, considering options for:</p> <ul style="list-style-type: none"> • determining a maximum/minimum package for social assistance benefits at household level and improving adequacy; • expanding minimum contingent coverage for informal workers, including through greater government subsidies; • indexing retirement benefits to prices and indexing the wage ceiling on which SSF retirement benefits are calculated to wage growth; • gradually raising the retirement age, setting actuarially fair adjustments for early or late retirement and raising the contribution rate once the COVID-19 crisis subsides; • transitioning to a results-oriented training and employment services system; • expanding linkages and referral pathways between social assistance, social insurance and active labor market schemes. <p>Prepare a road map for data governance reforms, including establishment of a virtual social registry.</p> <p>Transition to an electronic cash payment for SWC, with a view to eliminating other allowances.</p> <p>Invest in a labor market information system that could serve as a backbone for delivering effective labor market programs.</p>
<p>18-36 months (1.5-3 years)</p>	<p>Implement the road map for data reforms, including to:</p> <ul style="list-style-type: none"> • harmonize targeting and registration for poverty targeted programs, and introduce on-demand updating to improve data quality and reduce exclusion error; • Establish a virtual social registry that links existing program and administrative datasets through Application Programming Interface. • Establish data sharing protocols and privacy protections. <p>Implement social protection and labor market reforms, including to:</p> <ul style="list-style-type: none"> • Roll out new schemes for informal workers; monitor and evaluate uptake and effectiveness; • Consolidate and improve the adequacy of social assistance schemes.



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