

Fiscal space for social protection policies in Viet Nam

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The social protection sector in Viet Nam

This paper evaluates the fiscal implications of Viet Nam's current social protection strategy. It also gives estimates of the cost of policies that would rapidly increase the coverage of social insurance so that, in time of recession, the social protection sector is efficient in reducing poor and ordinary workers' vulnerability to income shocks.

Over the last 20 years, Viet Nam has developed a strong poverty reduction program concentrated on the development of infrastructure and economic opportunities in the poorest areas. It has also started building a modern social security system, the priority being the achievement of universal health insurance by 2015. In that context, programs targeted at individuals, such as social assistance (monthly cash benefits), are small and limited to people whose capacity to work is seriously limited. As the figures in Table 1 show, social protection expenditures were equivalent to about 3.7% of gross domestic product (GDP) in 2008.

A very large share of these expenditures (equivalent to about 2.5% of GDP) was related to the state budget's long-term commitments toward people with national merit and public sector pensioners who retired before 1995. The state budget finances part of the current pensions because, when the Viet Nam Social Security administration was established in 1995, it was unable to take on the financial burden of paying the benefits to people who had worked and retired from the public sector under the old system. Given the economic transition and the relatively small size of the enterprise sector, the system at its onset would have run deficits if the Government had not programmed these transfers to Viet Nam Social Security.

Since 1995, social insurance coverage has expanded; and since 2005, all types of enterprises, whatever their size, have had to register with Viet Nam Social Security all their employees with a labor contract of 3 months or longer. In 2006, the Social Insurance Law defined the legal framework to expand the coverage of the pension system to farmers and self-employed on a voluntary basis, and to create an unemployment insurance scheme.

Table 1: Viet Nam social protection budget 2008 (estimate)			
	D billion	Share of GDP (%)	Source
Social assistance	21,711	1.47	ILSSA (2009)
Monthly cash benefits	2,036	0.14	
Aid to natural disaster victims	4,762	0.32	
Social services	1,301	0.09	
Benefits to people with national merit	13,613	0.92	
Social insurance (budget transfer for pre-1995 public sector retirees)	23,044	1.56	Viet Nam Social Security
Health insurance (state budget transfer for the poor)	2,217	0.15	Viet Nam Social Security
Education subsidies	1,432	0.10	Socialist Republic of Vietnam (2005)
Labor market policies	1,327	0.09	ILSSA (2009)
NTPPR and P135-II, 2006–2010	4,564	0.31	Socialist Republic of Vietnam (2005)
Total	54,295^a	3.67	
Memorandum items			
State budget participation in NTPPR, 2006–2010 (D billion)	16,018		Socialist Republic of Vietnam, (2005), IDA (2007) ^b
State budget participation in P135 (D billion)	12,950		
Health insurance subsidies	4,076		
Education subsidies	2,073		
Other NTPPR expenditures (D billion)	33,445		
GDP (D billion)	1,477,717		General Statistics Office
Minimum wage (D '000)	540		MoLISA regulation
Number of recipients of health insurance subsidies ('000)	15,829		Viet Nam Social Security
Contribution rate (%)	3		Health insurance regulation

D = Vietnamese dong; IDA = International Development Association; ILSSA = Institute of Labor and Social Sciences; MoLISA = Ministry of Labor, Invalids and Social Affairs; NTPPR = National Targeted Program on Poverty Reduction; P135 = Program for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas.

a. Higher than state budget social spending of D50,265 billion because it includes health insurance and education subsidies.

b. Figures refer to total spending planned over 2006–2010.

Note: People with “national merit” are mainly war heroes and heroes from the revolution (and some of their relatives).

The formal sector was still relatively small in 2006, representing 38.7% of wage employment and 16.1% of total employment (Table 2).

Table 2: Social security and poverty rates, 2006^a

	Persons	Share in total (%)	Poverty rate ^b
Employment in formal and informal sectors	41,893,513	79.8	14.8
Wage employed potential participants in mandatory social insurance system			
Enterprise sector	9,753,103	18.6	8.1
Registered	6,769,062	12.9	7.5
Short-term contracts etc. not registered	2,984,041	5.7	9.5
Small business employees not registered	7,707,555	14.7	17.4
Farmers and self-employed potential participants in voluntary health insurance and pension systems			
Farmers and self-employed	19,356,539	36.9	11.6
Not in agriculture, aquaculture and forestry	5,028,279	9.6	2
Only in agriculture, aquaculture and forestry	9,924,339	18.9	17.5
In both sectors	4,403,921	8.4	9.5
Low income earners	5,076,316	9.7	35.6
	10,587,569		
Pensioners, inactive, and unemployed		20.2	7.2
Pensioners below standard retirement age	461,269	0.9	1.3
Inactive and unemployed	10,126,300	19.3	7.5
Total	52,481,082	100.0	13.2

a. Estimates based on the Vietnam Household Living Standards Survey 2006. b. Poverty rate criteria taken from General Statistics Office.

Source: Nguyen Thi and Castel (2009).

Continuing the National Hunger Eradication and Poverty Reduction program (HEPR, 1998–2005), the National Targeted Program on Poverty Reduction (NTPPR, 2006–2010) supports poor households and economic development of poor communities. It covers policies and programs that facilitate poor households' access to credit, health insurance, education, housing, clean water, and agricultural extension services, etc., and develops infrastructure in poor communes. In the poorest localities, the Program for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas (Program 135-I, 1999–2001 and 2002–2004 and Program 135-II, 2006–2010) funds infrastructure projects and coordinates social policies.

In health insurance, besides funding the free access to health insurance for the poor under the NTPPR program, the Government is aiming to achieve universal coverage by 2015. According to the new law on health insurance of 2008, mandatory coverage will be gradually implemented through 2014. Currently, contributions to health insurance are mandatory to the wage employed who are registered with Viet Nam Social Security. Informal sector workers and family members of formal sector employees can register voluntarily. Viet Nam Social Security contributes to health insurance cards for pensioners and the beneficiaries of social assistance. As mentioned, the state budget subsidizes the full purchase of health insurance cards to the poor and the populations of mountainous areas (previously partly financed through the Health Care Fund for the Poor).

Since January 2009, the state budget has also explicitly assumed the financial burden of health insurance cards provided to children under the age of 6 (previously financed by the Children's Fund) and half the cost of health insurance cards for the near poor (so that people previously registered as poor but whose income has increased above the poverty line in recent years do not lose health insurance coverage). In

2010, state and local budgets assume responsibility for 50%¹ of the financing of all near poor and students' insurance cards. Finally, during 2012–2014, health insurance will become mandatory for all workers and their family members.

The budget for providing social assistance to vulnerable groups is relatively small. Indeed, more is spent on aid to victims of natural disasters, which accounted for about 0.32% of GDP in 2008. Individual targeted programs such as social assistance (monthly cash benefits) represented only 0.14% of GDP.

Since 2007, the Government has indicated its willingness to expand social assistance. The relevant regulations were changed in April 2007 and the budget in 2008 was increased significantly to 2,100 million dong (D) from D510 million in 2007 (approximately, from 0.05% to 0.14% of GDP). The groups targeted are mostly individuals whose capacity to work is seriously limited. As a result, the social assistance programs have little impact on the working poor: about one third of the registered poor are ineligible for such assistance, and approximately half the budget is received by the non poor (Pham Anh and Castel 2009).

Government response to the crisis

Viet Nam had some fiscal space to respond to the impact of the global financial crisis, because since 2001, government current revenues had usually exceeded plan targets and fiscal deficits had been financed without monetization (IDA 2007). Although the drop in 2009 in commodity prices and corporate taxes had reduced the expected amount of fiscal revenues, the Government in its stimulus package expanded social expenditures by about D7,200 billion for 2009, or 0.44% of GDP (4.11% versus 3.67%; Table 3). This included disbursement of a Tet holiday bonus to the poor, increased housing support, and creation of an additional targeted program directed to the 61 poorest districts.

According to figures from the Ministry of Labor, Invalids and Social Affairs (MoLISA), the Tet bonus was distributed to 2.3 million poor households (approximately 9.2 million people). The benefit per individual was particularly high, at D200,000, equivalent to 1 month of the poverty line used by MoLISA to determine poverty in rural areas in 2006.²

The remaining part of the budget was targeted to increase the housing support program and to intensify development policies in the poorest regions through an additional program. (Although poverty has been declining there, it remains very high in comparison to the rest of the country.) Under Decree 30a, each of the 61 poorest districts was given in advance D25 billion to develop projects. In June 2009, 11 of 62 district poverty-reduction projects had been approved, and 37 economic groups, corporations, and enterprises had agreed to support 57 poor districts (General Statistics Office, press release, June 2009). The objective of this additional program is to reduce the poverty rate in these districts to levels close to the average for the province by 2015 and the region by 2020. One particular aspect is that it gives ministries the responsibility to create teams that directly help, in the field, local authorities to design and submit development plans.

1 The state budget will finance 30%, local budgets 20%.

2 Given the rise in consumer prices, this level is similar to the General Statistics Office 2006 per capita food poverty line in 2008.

Table 3: Viet Nam social protection budget 2009 (estimate)			
	D billion	% GDP	Source
Social assistance	23,649	1.42	
Monthly cash benefits	2,036	0.12	ILSSA (2009)
Tet 2009 bonus	1,700	0.10	World Bank (2009)
Aid to natural disaster victims	4,879	0.29	ILSSA (2009)
Social services	1,343	0.08	ILSSA (2009)
Benefits to people with national merit	13,691	0.82	ILSSA (2009)
Social insurance	25,879	1.56	
State budget transfer pre-1995 public sector retirees	24,829	1.49	Gian et al. (2009)
Severance pay 2009, 200,000 workers	1,050	0.06	World Bank (2009)
Health insurance	6,051	0.36	
State budget transfer for the poor	3,789	0.23	Author's estimate
Children under 6 years	2,013	0.12	Author's estimate
Near poor	249	0.01	Author's estimate
Education subsidies	1,432	0.10	Socialist Republic of Vietnam (2005)
Bonus to low-income civil servants	360	0.02	World Bank (2009)
Labor market policies	1,342	0.08	ILSSA (2009)
Targeted poverty reduction programs	9,689	0.58	
NTPPR and P135 2006–2010	4,564	0.27	ILSSA (2009)
Poorest 61 districts (Decree 30a)	1,525	0.09	World Bank (2009)
Increased housing support	3,600	0.22	
Total	68,402	4.11	
Memorandum items			
GDP (D billion)	1,663,444		Author's estimate ^a
Minimum wage (D '000)	650		MoLISA regulation
Number of recipients of health insurance subsidies ('000)	16,193		Author's estimate ^b
Number of near poor ('000)	2,128		Author's estimate ^c
Number of children under 6 years ('000)	8,602		Author's estimate
Contribution rate (%)	3		Health Insurance regulation

ILSSA = Institute of Labor and Social Sciences; MoLISA = Ministry of Labor, Invalids and Social Affairs.

a. Based on General Statistics Office data for GDP growth of 5.3% in 2009 and consumer price index trend. b. About 7.9 million people are estimated to live in mountainous areas (6 years old and above). c. The number of near poor is the gap between the number of poor in 2008 (age 6 and over) and the number of poor in 2009 (age 6 and over).

Household vulnerability during the crisis

Employment trends at the beginning of 2009 were worrying. Estimates based on the past trend of employment elasticity to growth in Viet Nam at aggregate and enterprise levels forecast a possible fall in employment in 2009 of between 195,000 and 659,000 people (Nguyen Viet et al. 2009). A study

conducted by Central Institute for Economic Management and the World Bank of enterprises in 24 of the 133 operating industrial parks indicated that in March, April, and May 2009,³ about 40% of the enterprises had reduced employment (CIEM-World Bank 2009). Also, rapid assessment surveys by the Vietnamese Academy of Social Sciences reported heavy job losses in enterprises of the Thang Long industrial park near Hanoi (Nguyen Thi 2009).

In fact, open unemployment of workers from industrial parks and other enterprises of the manufacturing or services sectors did not increase sharply. MoLISA (2009) indicates that about 80% of laid-off workers who reported to local offices (workers who, more likely, would have been eligible for unemployment insurance) obtained another job in the following few months. It is possible that local offices underestimated the overall reduction in formal employment. Anecdotal evidence in the footwear industry indicates that some idle workers are still on the roll of their former enterprise. They continue to contribute to social security (through their former enterprise) in the expectation of being rehired when activity picks up. In another case, enterprises obtained workers' resignations but delayed reporting the downsizing to social security (Nguyen Thi 2009).

Most of the dismissed workers would not have been eligible for unemployment insurance anyway. In the enterprise sector, the share in employment of temporary and seasonal workers with short-term contracts is high in Viet Nam. In 2006, about 3.0 million of the 9.7 million wage employed (i.e., 30.6%) who worked in the enterprise sector were not registered with social security (Table 2, above). Most of the downsizing appears to have been carried out through the nonrenewal of short-term contracts, voluntary (sometimes induced) resignations,⁴ and less overtime work.

Because the formal sector is relatively small, social protection mechanisms offer little in the way of mitigating the crisis impact on ordinary workers. Severance pay was the main income support for dismissed workers. According to the Labor Code, employers must pay termination benefit or severance pay of half a month's salary for each working year. In fact, few enterprises paid such benefit to all their dismissed workers. In some cases, enterprises only paid 1 or 2 months of salary to workers who voluntarily resigned (Nguyen Thi 2009). In other cases, workers with less than 1 year of work in the enterprise in effect received half a month's salary, but workers "making mistakes" or who were dismissed because of their low ranking in terms of productivity (a ranking set each year to define the employee's Tet bonus) received no benefits.

Among export-oriented craft villages that have also suffered from the drop in activity, contracts are informally signed on an annual basis, and salaries are paid either on a daily-rate basis, or on a piece-meal basis. Consequently, no businesses or producers paid any types of insurance, redundancy, or unemployment benefits for their workers.

In Viet Nam, the crisis has not been the only economic shock that ordinary workers have had to cope with in recent years. Confronted with rising inflation and ballooning imports of consumption goods, the Government in March 2008 implemented a stabilization package that drastically cut the credit growth rate, froze some public investment projects, and reduced government expenditures. Partly as a result, GDP growth fell from 8.5% in 2007 to 7.5% in 2008. The resulting burst of the real-estate bubble and the drop in public investment reined in construction growth, which probably had a large impact on informal sector workers. According to the Vietnam Household Living Standards Survey (VHLSS) of 2006, construction had about 2.6 million workers in 2006, of whom 87.9% were informal.

3 The survey covered 11 provinces. Questionnaires were sent to 4,048 enterprises.

4 In addition, enterprises' more readily dismissed unhealthy workers and those making minor mistakes.

For those who became poor during 2008 or 2009, only those who had been previously registered as poor and had managed to escape poverty could likely be *reconsidered* as poor. The reason is that social assistance screening procedures are slow in Viet Nam and the lists of the poor are reestablished only when a new poverty line is issued (usually every 5 years).

Living standards have not fallen dramatically, however, because workers in the industrial parks are young with few dependents and because families of migrant workers rely on various sources of income. Many of the migrant workers who work in the craft villages and the construction sector in Hanoi still maintain their agricultural work at home and only take up craft jobs during the off-farm season while some of their household members remain on the farm.

Fiscal space for the social protection strategy: Expected trend of social expenditures from 2010 to 2020

The Social Strategy Paper drafted by ILSSA (2009) is the principal source of information about government plans for the next 10 years in the social protection sector. The strategy is not yet final, so the figures and the comments presented in this section are preliminary.

Health insurance

The major increase of state budget funding to the social protection sector will come from the implementation of the health insurance policies designed to move the country toward universal coverage. State budget transfers are expected to increase from about 0.36% of GDP in 2009 to 0.5% of GDP in 2010 and to remain stable as a share of GDP in the years to 2020. Two trends explain this increase. First, starting in 2010, the state budget will (as said) cofinance half the amount of students' health insurance cards. The estimate in Table 4 assumes that the state budget finances all these subsidies. Second, in 2010 the official poverty line will be adjusted and the lists of the poor will be totally revised. With the current poverty line, households with per capita income lower than D200,000 per month in rural areas, and D260,000 in urban areas, are "poor." These thresholds are likely to be increased in 2010 to D300,000 and D390,000, respectively. ILSSA projects that with these new levels, the number of registered poor may reach 12.3 million in 2010. This larger number should lead to an increase of about D1.1 billion in state subsidies for the poor (given a stable number of beneficiaries living in mountainous areas).

Social assistance

ILSSA's Social Strategy Paper foresees that the basic benefit will be readjusted, to 50% of the minimum living standards level. The revision of the poverty line will also lead to some increase in the monthly cash benefits. However, as the eligibility criteria are much more related to people's working capacity than to a household's poverty situation, the impact is not expected to be substantial. The forecasts in Table 4 are consistent with an increase of the number of beneficiaries in line with population growth, and adjustments to the basic level of monthly cash benefits in line with GDP growth.

The amount of benefit paid to people with national merit is expected to decrease steadily over time, and this decline will relieve some of the budget constraints in the social services sector. But, because the risk of natural disasters in Viet Nam is high, the relative weight of the aid to victims of natural disaster will likely remain constant as a share of GDP. Consequently, rather than declining to 0.6% of GDP in 2020 as

in Table 4, our estimate of future fiscal space assumes that social assistance will more likely use resources at least equivalent to about 0.8% of GDP in 2020.

Social insurance

Fiscal space will be made available as the financial burden of the benefits paid to pre-1995 retirees decreases. Estimates indicate that this burden could fall from 1.4% of GDP in 2010 to 0.7% in 2020, if, among others, the Government continues to adjust those benefits according to minimum-wage changes (Gian et al. 2009). Any lower benefit increase would create more fiscal space.

Table 4: Viet Nam social protection budget (estimates 2010–2020)

	D billion			% of GDP		
	2010	2015	2020	2010	2015	2020
Social assistance	23,361	31,904	35,629	1.22	0.90	0.57
Monthly cash benefits	3,205	7,080	13,036	0.17	0.20	0.21
Aid to natural disaster victims	5,000	7,500	10,000	0.26	0.21	0.16
Social services	1,386	1,574	1,715	0.07	0.04	0.03
Benefits to people with national merit	13,770	15,750	10,878	0.72	0.45	0.17
Social insurance (pre-1995 public sector retirees)	26,759	39,235	45,916	1.39	1.11	0.74
Health insurance cards	9,288	16,920	29,274	0.48	0.48	0.47
Poor population in mountainous areas	4,887	7,915	12,190	0.25	0.22	0.20
Children under 6 years	2,711	5,315	9,392	0.14	0.15	0.15
Students all children 6 to 14 years	1,493	2,970	5,738	0.08	0.08	0.09
Near poor	197	720	1,954	0.01	0.02	0.03
Education subsidies	1,863	3,419	6,025	0.10	0.10	0.10
Labor market policies	1,357	3,514	3,730	0.07	0.09	0.06
Targeted poverty reduction programs	4,564	11,003	15,310	0.24	0.31	0.25
Total	67,192	105,994	135,884	3.50	3.00	2.19
Memorandum items						
GDP (D billion)	1,922,151	3,527,750	6,217,101			
Minimum wage (D '000)	750	1,376	2,426			
Number of poor ('000)	12,340	10,115	7,890			
Poor population in mountainous areas 15 years old and above ('000)	15,924	14,342	12,715			
Number of near poor ('000)	1,789	3,496	5,241			
Number of children under 6 ('000)	8,628	9,093	8,944			
Number of children 6 to 14 years ('000)	12,496	12,755	13,288			
Health insurance contribution rate (%)	3	3	3			
Total population ('000)	86,656	91,670	96,252			
Health insurance, fully subsidized persons (%)	28.3	25.6	22.5			
Poverty rate (%)	14.4	13.9	13.8			
Poor and near poor rate (%)	16.5	17.7	19.3			

Source: Author's calculations based on ILSSA (2009); Gian et al. (2009); and General Statistics Office data.

Education subsidies and labor market policies

The estimates assume that the budget will remain constant as a share of GDP. The fiscal space created by the regular reduction in the number of the poor will likely be used to improve the quality of schooling in poor areas and to support wider access to higher education.

Targeted poverty reduction programs

Over the next 10 years, the NTPPR, Program 135, and projects under Decree 30a should continue. It is still unclear, though, whether Decree 30a funding will gradually replace that for other projects.

The estimates shown in Table 4 assume that the state will commit funds of about 1.6% of GDP for the next 5 years, and of 1.2% for the period 2016–2020 for all the programs combined. As the funding for health insurance policies and for the programs to improve access and quality of education to the poor is budgeted separately, this funding corresponds to the level of commitment of the period 2006–2010 in relation to the provision of agriculture extension services, vocational training, community development and infrastructure, the distribution of productive land, the access to clean water and housing improvements (Table 5). However, if the Government does not raise total funding, health insurance funding could significantly reduce resources available to other programs.

Table 5: National Targeted Program on Poverty Reduction and Program 135-II, planned budgets, 2006–2010

	National budget	Donors	Local budgets and community contribution	Credit	Total
National Targeted Program on Poverty Reduction 2006–2010					
Extension services	200		100		300
Vocational training	2,500		500		3,000
Model duplication	40		260		300
Community development	10	55	10		75
Infrastructure	1,050	550	2,050		3,650
Capacity building, advocacy, monitoring	155	105	115		375
Distribution of land	800		200		1,000
Health assistance	4,076				4,076
Education assistance	2,073				2,073
Housing, access to drinking water	1,600		3,500		5,100
Credit	3,614			26,000	29,614
Program 135-II^a					
Production support					2,225
Infrastructure					8,750
Infrastructure operation and maintenance					875
Capacity building					525
Living standard support					525
Management and supervision					50
State budget funding	D billion		% of 2006 GDP		
Health assistance	4,076		0.4		
Education assistance	2,073		0.2		
Credit	3,614		0.4		
Other programs and projects under NTPPR	6,355		0.7		
Program 135-II	9,065		0.9		

a. 70% covered by state budget funding; excludes official development assistance of an additional \$300 million.

Sources: Socialist Republic of Vietnam (2005); International Development Association (2007).

Overall social protection spending and fiscal space

On the basis of all these assumptions and expected developments, the overall size of the social protection sector over the next 10 years is forecast to decline from 3.5% of GDP in 2010 to 3.0% in 2015 and 2.2% in 2020.

Still, benefits paid to pre-1995 retirees and to people with national merit consume a large portion of this budget: 1.6% of GDP in 2015 and 0.9% in 2020. The decrease in these programs is, though, large enough to free resources to support health insurance policies and, possibly, to introduce new social policies.

Fiscal space will really materialize, however, only if no important quasi-fiscal deficit develops in the health insurance and social insurance sectors. As the discussion below indicates, the probability of such an event is, however, relatively low.

Expected financial position

Health insurance

In 2005, total health expenditures amounted to 5.2% of GDP; public health spending accounted for 2.3% of GDP (Ministry of Health 2005). Health insurance financed half public health spending; state budget transfers financed the other half. If Viet Nam adopts the same trend as other countries, per capita health expenditures are likely to rise by at least the same rate as per capita GDP. In fact, it would be desirable that public health expenditures in Viet Nam rose faster than that, because the poor currently underuse health care services. Forecasts indicate that, in 2015, total health expenditures could amount 8.8% of GDP and public health expenditures to 3.4% of GDP (Castel 2007). If in 2015, as in 2005, the state budget finances half this budget, to match the rest, health insurance must raise the equivalent of about 1.7% of GDP in 2015.

Our simulations indicate that if universal coverage is achieved, the policy that links the basic premium for health insurance to the minimum wage (and thus to general income growth) will be successful in balancing health insurance finances in 2015 and, probably, in supporting the growth of the health sector in the following 5 years. If half the workers in the informal sector do not follow the health insurance regulation or if formal employment in the enterprise sector does not grow as expected, the revenue shortfall could hit 0.3–0.5% of GDP.

Pension system

In the pension system, short-term concerns are few. First, the state budget already bears the financial burden related to pre-1995 retirees. Second, the system created in 1995 is far from being mature, so very few of the contributors have reached retirement age with pension rights. As a result, the system currently accumulates reserves and provides resources (through the buying of public bonds and regular loans) to other social areas and public projects.

There are, however, medium- to long term concerns about the system's financial viability. The retirement age is currently low and pension benefits paid to public sector retirees are quite high relative to what workers have contributed. If the Government continues to adjust public sector pensions annually at the same rate as the minimum wage, this will produce a deficit in the medium term. If, alternatively, it adjusts public pensions according to the consumer price index, the system should remain financially sound for much longer.

Fiscal space and reforms to reduce household vulnerability

Assuming that government receipts (beside health insurance and social insurance revenues from contributions) remain stable as a share of GDP, the above analysis suggests that in the next 10 years, the trend of public social spending in Viet Nam should allow the Government to continue building a comprehensive social security system for the whole population. As mentioned, reliance on universal

coverage programs along with large poverty reduction programs appears to be the key feature of the country's social strategy.

The integration of large numbers of the informal sector population into the pension system will also open new possibilities to introduce mechanisms that reduce households' vulnerability to income shocks. Under these mechanisms, in the event of job loss or reduced income (due, for example, to economic downturn, drought, animal disease, or epidemic), those covered by social insurance could be allowed to borrow from their own future retirement benefits. Long-term sickness and disability insurance could be established as well. The introduction of notional defined contribution accounts, as foreseen in the ILSSA 2009 Social Strategy Paper draft paper, will help that process.

However, unless it is accelerated, this strategy will be ineffective in protecting most of the current workers and their families from income shock because it will take many years to develop and to reach a significant share of the population. Although the Government has recently introduced a voluntary pension scheme for informal sector workers, our simulations using data from the VHLSS 2006 show that the system will most likely provide income support for only a few elderly in the next 30 years. Even in the best-case scenario, in which all informal sector workers with earnings of at least the minimum wage join the mandatory or the voluntary pension system from 2007, coverage of the elderly with pension income would reach only 34.8% in 2030 (Table 6).

Table 6: Pension income coverage of elderly in the best-case scenario (%)

Old-age income status	2020	2030
With no pension or lump sum	35.6	21.4
With pension income	13.4	34.8
With lump sum paid at retirement	51.0	43.8

Note: Author's simulations based on data from the Vietnam Household Living Standards Survey 2006, under the assumption that, starting in 2007, all workers contribute either to the mandatory or voluntary pension system.

The most important reason for this result is that, in order to be financially viable, the pension system requires the beneficiaries of monthly pension income to contribute for a minimum of 20 years. A rather small lump sum is paid otherwise. Many workers in the informal sector who could join social insurance "tomorrow" are already 40 years old or above (women) or 45 years old or above (men). They cannot, therefore, contribute for 20 years before reaching retirement age even if they delay retirement up to the age of 60 for women and 65 for men. The same issue is also seen in the case of the mandatory system and workers of the enterprise sector. The mandatory system was open to private sector employees in 1995. All workers who registered with social security when they were 40 or above (women) and 45 and above (men) will reach retirement age in the coming years without 20 years of contribution.

Poverty rates among the elderly are not particularly high, but if rural to urban migration intensifies, the issue of poverty could emerge. Providing universal income support to all the elderly in rural areas would, though, be unaffordable. Our simulations indicate that at best, only 32.3% of the elderly in rural areas are likely to be pensioners in 2030. Providing income support to the poorest would, therefore, probably be difficult to implement because the program would have to screen large populations of uncovered elderly. In our simulations, in 2020, about 12 million elderly people are forecast as living in rural areas.

In addition to the issue of poverty emerging among the elderly, the fact that many of those in the pension system are entitled only to small lump sum amounts is eroding the public's trust in social security. Right now, workers in Viet Nam do not seem to value social security benefits. Studies (To Trung and Castel 2009) and much anecdotal evidence indicate that wages are often underreported and

registration avoided if possible. The figures in Table 6 indicate that even if all the workers of the informal sector participate in the voluntary pension system immediately, about half the elderly would be entitled to only small lump sum amounts in 2030. And even if poverty among the elderly does not increase because relatives and friends support them (to a greater or lesser extent), public opinion will perceive that social insurance is costly and irrelevant.

Supporting access to old-age income

Table 7 presents an estimate of the cost in 2020 of a program that would provide pension income equal to the minimum wage to the elderly who have contributed to the pension system but are eligible only to a lump sum⁵ when they reach pension age. The cost of the program consists in financing the gap between the minimum wage and the retiree’s lump sum. In the calculation, the lump sum is transformed into an annuity, as if social security could keep and invest the lump sum and use it with the returns to finance part of the overall benefit. As with Table 6, these estimates are based on our simulations, which assume that all workers join the pension system, which in turn explains why the number of retirees from the voluntary system is so high.

The cost of 2.86% of GDP looks particularly high, but this is the higher bound. In practice, the cost of this policy could be lower. If, for example, 40% of informal sector workers join now, the cost would be around the level of the benefits that the state budget paid in 2008 to pre-1995 retirees (1.5% of GDP).

Other policies (matching contributions, subsidized loans, etc.) could help promote take-up and reduce the cost of providing old-age income support to current cohorts of middle-aged workers (*Vietnam Development Report*). The earlier estimates show that these policies are fiscally workable and in the range of the fiscal space that will likely be available in the medium term. Their implementation would, moreover, be temporary, as they are limited to the generation of workers who will not have had the opportunity to contribute for 20 years.

Table 7: Cost of providing a minimum pension to the elderly^a

Cost	Number of beneficiaries	Cost (% of GDP)
Retirees from the mandatory pension system who: worked in the public sector	74,931	0.03
worked in the private sector	98,126	0.04
Retirees from the voluntary pension system	6,483,048	2.86
Share of elderly with pension income (%)		
If lump sum is paid to those with fewer than 20 years of contribution	14.2	
If the Government subsidizes pensions to retirees who have contributed for fewer than 20 years (assuming that half of informal sector workers contribute in coming years)	39.1	

a. “Elderly” here refers to those in the mandatory and voluntary pension systems but who reach pension age with fewer than 20 contribution years. The simulation assumes, as in Table 6, participation of all workers.

Source: Author’s calculations.

5 That is, to all those who, between 2008 and 2020, contribute to the pension system but reach retirement age with fewer than 20 years of contributions.

Conclusion

Today a large proportion of workers in Viet Nam are employed in the informal sector. Although the enterprise sector is rapidly developing, many workers are employed in small businesses, are farmers, or do casual work. Large enterprises hire a significant part of their workforce under short-term contracts. As a result, in times of economic slowdown, most of the dismissed workers are not covered by social security. Moreover, no policy can be put in place to help workers cope with the income shocks because of the impossibility of implementing verification methods on income and employment of informal sector workers. Accordingly, the Government's social protection strategy is aiming to develop a comprehensive social security system covering the whole population.

This paper has, first, evaluated the fiscal implications of such a strategy given the willingness of the Government to continue improving living standards in the poorest regions. It has, second, shown that if the process is not accelerated, achieving wide population coverage with social insurance (including pensions) will take, at best, many years. At worst it will not be possible because in the short and medium terms, public opinion will regard social insurance as costly and irrelevant. This paper has, finally, demonstrated that the implementation of policies that boost pension system participation is fiscally workable.

The integration of large groups of the informal sector into the pension system could, furthermore, open new possibilities to introduce mechanisms that reduce ordinary households' vulnerability to income shocks in time of crisis.

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