



# COUNTRY REPORT OF THE ASEAN ASSESSMENT ON THE SOCIAL IMPACT OF THE GLOBAL FINANCIAL CRISIS: VIET NAM

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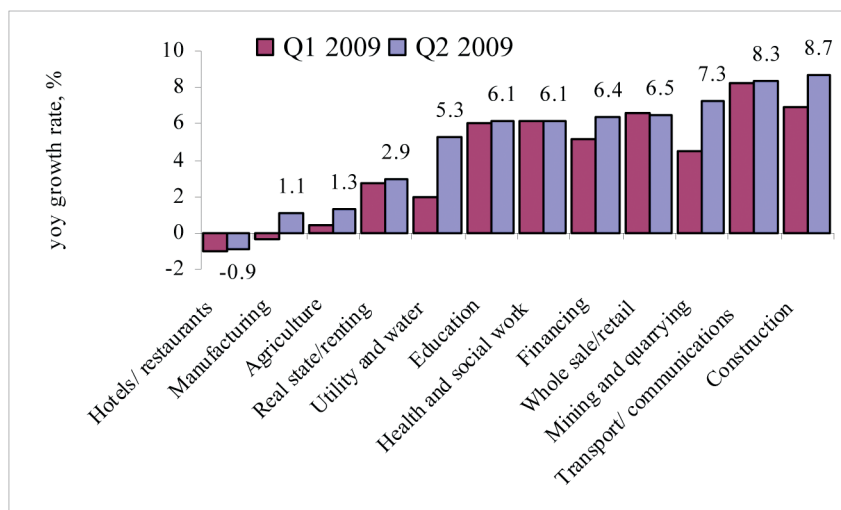
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## I. THE IMPACT OF THE CRISIS AND THE GOVERNMENT'S RESPONSE

With exports accounting for more than 70 percent of GDP, Viet Nam is highly vulnerable to external shocks such as the global financial crisis. However, the economy appears to be in solid recovery, and GDP grew by 5.8 percent (year on year) in the third quarter of 2009.<sup>1</sup> Prior to the financial crisis, Viet Nam had sustained an average annual GDP growth of 7.5 percent since 1990, halving poverty in a mere six years since 2002.<sup>2</sup> The current global financial crisis is affecting the Viet Namese economy primarily through lowered international demand for its exports of goods and a reduction in tourism, as well as through reduced foreign direct investment (FDI). Since the start of the crisis, exports have been sliding downward continuously, decreasing by 13.4 percent for the first seven months of 2009 compared with the same period in 2008.<sup>3</sup> Foreign tourist arrivals were down by 20 percent in July 2009 compared with the same period in 2008. As of May 2009, FDI was down by almost 30 percent compared with the same period in 2008. Estimates of overseas remittances are scarce, but statistics show smaller numbers of Vietnamese seeking jobs overseas.

However, the aggregate figures mask significant sectoral differences. As can be seen in Figure 1, the manufacturing and the agricultural sectors registered only a little more than 1 percent growth in the second quarter of 2009, while their performance was even worse in the first quarter. These sectors are responsible for 65 percent of all employment in Viet Nam and generate 35 percent of GDP. In addition, they generate large number of jobs for self-employed and low-skilled, low-income workers.<sup>4</sup> Other sectors have appeared to be more resilient in the face of the crisis. Recovery will most likely be led by the construction and transport sectors.

Figure 1: Sector growth in January to June 2008 and 2009



Source: CECI database.

<sup>1</sup> In the first quarter of 2009, GDP growth was 3.1 percent (year on year) and in the second quarter, it was 4.5 percent.

<sup>2</sup> Poverty stands at 13.5 percent as of 2008.

<sup>3</sup> General Statistics Office (GSO) website as of August 19, 2009.

<sup>4</sup> The hotel and restaurant sector has also been hit particularly hard but accounts for less than 2 percent of total employment.

**Evaluating the social impact of the financial crisis is difficult in the absence of reliable and timely labor force survey and other micro level information.** The immediate social impact can be seen primarily in the sharply reduced international demand for Vietnamese manufacturing products, which has resulted in lost jobs, increased underemployment, lower wages, and lower incomes. For the first five months of 2009, exports were down for most commodities, including all agricultural commodities other than rice (-20 percent), seafood (-9 percent), garment (-2 percent), footwear (-10 percent), electronics and computers (-8 percent) and wood products (-20 percent). The only positive note was rice exports, which were up by 20 percent. Given that many rice farmers live close to the poverty line, robust rice exports should help to mitigate the adverse social impact of the crisis.<sup>5</sup>

**There is abundant qualitative evidence of increased hardship in the export sector, both in larger enterprises in industrial parks (IP) and in smaller household businesses in handicraft villages.** A rapid assessment of the impact of the crisis impact carried out by the Viet Nam Academy of Social Science (VASS) has revealed that, in response to lower orders, many firms have cut back on production and on their work forces.<sup>6</sup> For example, in the ceramic producing village of Bat Trang, producers employed nearly 10,000 migrant laborers from neighboring provinces in boom times, but they have cut back their employees by 50 to 60 percent since 2008. Some enterprises were able to reduce their operational costs simply by reducing their seasonal hiring, but others, especially those that had invested heavily in state-of-the-art equipment right before the crisis, suffered devastating losses. In contrast, a few craft businesses that produce goods for domestic niche markets have been able to sustain their production.

**Table 1: Percentage of Companies in Industrial Parks That Have Reduced Their Employees**

% of companies cut their labor forces	% of labor forces that have been cut				Total % of companies	Average % of workers reduced by industry
	<30%	30-50%	50-75%	> 75%		
Wood product	71.4	0.0	14.3	14.3	100	20.4
Machinery/electronics	76.9	11.5	3.8	3.8	100	17.3
Garment/ footwear	70.0	10.0	10.0	0.0	100	18.1
Plastics/electric wire	55.6	22.2	11.1	0.0	100	20.8
Paint production	66.7	0.0	0.0	33.3	100	55.6
Others	58.3	16.7	8.3	8.3	100	46.8
<b>Total</b>	<b>68.7</b>	<b>11.9</b>	<b>7.5</b>	<b>6.0</b>	<b>100</b>	<b>19.6</b>

Source: VASS (2009)

**Research carried out by VASS in the Thang Long Industrial Park on the outskirts of Hanoi suggested that, while there had been some lay-offs, this was by no means managers' preferred response.** Many managers were keen to retain trained or skilled workers, seeking to avoid incurring the significant costs that would be involved in re-recruiting and retraining workers when demand picked up. Many of the workers were working on a reduced schedule, often around 70 percent of

5 World Bank (2009)

6 VASS (2009)

their normal hours, which meant that their total earnings fell. Some workers had chosen to leave their industrial park jobs, because the combination of the inflation of 2008 and the current reduction in earnings meant that their wages barely covered their subsistence costs. Other workers were supplementing their earnings by working in the informal sector or by receiving remittances sent from members of their extended family in rural areas. Several workers interviewed in the VASS study were taking advantage of working only part-time to take training courses. A report by UNDP based on a survey of Vietnamese who were working overseas found a similar reduction in hours – and even a loss of jobs – but, because the costs of migrating back to Viet Nam were so high, many workers felt they had no choice but to stay abroad in sub-optimal situations. A survey of Dong Nai’s Industrial Parks revealed that the crisis has had a range of different effects across industries. On average, companies cut back 20 percent of their employees, but the workforce in the paint production industry was cut by more than half (Table 1).

**These surveys also show that the crisis has had a significant negative impact on indigenous households located near industrial parks who depend for their livelihood on providing services to migrants who have come to work in the IPs.** Many of these local service providers were previously farmers who lost their agricultural land as the industrial parks developed. They used their compensation payments to establish dormitories and small businesses to provide services to migrant workers. However, since the crisis began, many of these migrant workers have lost their jobs and left the industrial parks due to a lack of job opportunities, leaving the dormitories empty. Research in remittance-receiving rural areas also suggests that diminishing remittances are having a negative impact on the consumption of rural households.

**As Viet Nam’s economy is showing signs of recovery, a mismatch between labor supply and demand has emerged as a critical issue.** Firms are starting to look for new hires, and workers are continuing to look for jobs. On the one hand, many workers say that the wages being offered are too low (US\$75– 110 a month) given the high cost of living in the cities and areas around industrial sites. On the other hand, firms claim that they cannot find enough highly skilled workers. This is just one of the existing challenges in Viet Nam’s general development agenda that has been highlighted by the crisis. The government is now trying to ensure that Viet Nam is better placed to deal with future shocks and that the country has a robust development strategy in light of changing global conditions.

**A rapid assessment survey conducted in March 2009 revealed that informal sector workers are also facing considerable hardship due to reductions in working hours in their usual places of employment and consequent falls in earnings.**<sup>7</sup> To make ends meet, many of them are having to take on additional less productive and low-paid work. The most recent follow-up survey to the rapid assessment has identified several continuing effects of recent shocks (such as high inflation and the global crisis) as well as impacts of economic structural change. The survey data on the five main mobile labor markets in Ha Noi show that 70 percent of day laborers are mature, married people, generally between the ages of 30 and 55, from poor rural areas with low education and skills. They are often the main breadwinners of their families who still live in poor rural areas, and they do construction work, lifting and carrying, cleaning, and minor transportation. As Viet Nam develops, firms are increasingly organized to provide

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7 Thanh et al (2009)

these types of services, thus potentially crowding out these individual workers. Focus group respondents say that these firms want to hire young, willing, and better educated workers instead.

**Having contributed significantly to Viet Nam's booming exports, informal and migrant workers are particularly vulnerable to hardship as a result of the crisis.** They are often securing work on a daily basis and face high levels of income insecurity and are have little or no social protection or access to safety nets. Interviews with day laborers in construction have revealed that their working hours were reduced by half in 2008 after the financial crisis, and the hours of workers in better paid jobs were reduced even more. These informal sector workers explained that, before the crisis, they were able to save a significant proportion of their monthly earnings to send back their families as remittances. Since the crisis, their savings had been reduced by about 30 to 50 percent, and some workers even had difficulty affording the minimum costs of living in the city. Although some jobs in the industrial parks are still advertised, low-skilled workers appear to have little chance to getting any of these jobs because of a lack of qualifications.

**Although this is based on little hard data, the current consensus among analysts and policymakers is that the impact of the financial crisis has not yet filtered into health and education sectors, since households are first trying to reduce their expenditures on non-essential expenses and the number of meals per day, as well as substituting cheaper food items for more expensive items.** However, evidence suggests that health and education expenses are the next in line to be cut in household budgets.

### **Government Response**

**In response to the sharp global economic slowdown, in December 2008, the Vietnamese government announced the introduction of a stimulus package equivalent to 8.3 percent of GDP (Table 2).** The stimulus measures largely reflect the government's preoccupation with stabilizing the labor market and expanding domestic demand. The package includes measures to stimulate business investment, such as a reduction in cooperate income tax (CIT) for small and medium-sized enterprises, deferred CIT payments, a subsidized interest rate scheme, and an increase in public investment to overcome infrastructure bottlenecks to the long-term development of the Vietnamese economy. In addition, the package included safety net interventions such as housing support and a one-time cash transfer to the poor as well as support to poor districts.<sup>8</sup> More recently, in June 2009, a series of additional stimulus measures was approved by the National Assembly, the focus of which was to speed up critically important public investments, especially in energy and transport.

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<sup>8</sup> These represent the measures adopted in the first quarter of 2009. Since then, several additional stimulus policies have been adopted or announced with some details still emerging. For the sake of clarity, the measures in Table 2 are referred as the "first round of policy responses."

**Table 2: First Round of Government Policy Responses to the Financial Crisis**

	VND Billion	As % of total actual stimulus
Reduction of cooperate income tax (CIT) for SME, Q4/08 to Q4/09	3,000	7%
Deferred CIT payment for six subsectors during nine months of 2009	(7,300)	
Deferred personal income tax (PIT) during five months of 2009	(6,100)	
50 percent VAT reduction for selected goods and sectors	7,200	17%
Subsidized interest rate scheme	17,000	40%
Additional off-budget spending	8,000	19%
<i>Tet bonus (200,000 VND per poor person, up to 1,000,000 VND per hhd)</i>	<i>1,700</i>	<i>4%</i>
<i>Support to 61 poorest districts (each province to receive 25 billion VND)</i>	<i>1,500</i>	<i>4%</i>
<i>Housing support for the poor (0.5m rural hhds receive 7.2m VND each)</i>	<i>3,600</i>	<i>8%</i>
Support to low-income civil servants (0.9m, 360,000 VND each)	0,400	1%
Total	42,400	100%

Source: World Bank (2009)

Notes: SP related stimulus measures in italics.

The total spending figure does not include the deferred CIT and PIT payments (in parentheses) since these expenses will be recovered at a later date.

### Monitoring and Analysis

**There is only a limited amount of data available to carry out a rapid assessment of the impact of the crisis, with survey data being collected too infrequently to make it possible to do any ongoing monitoring.** The existing data collecting systems are well developed to provide real time monthly and quarterly for macroeconomic data. However, this is not yet the case for social indicators. Annex 1 gives a brief description of the availability of and gaps in the data needed to monitor the social impact of the crisis in Viet Nam. It reinforces the absence of systems and methodologies to collect regular, up-to-date social indicators to capture the social impact of the crisis, although some labor force and household survey data are expected to become available later in 2009. However, there have been several recent studies and analytical activities that have shed light on the developments in the economy and the labor market (see Table 3).



**Table 3: Studies That Have Monitored the Social Impact of and Policy Responses to the Economic Crisis**

Leading Agencies	Title and Contents of Studies	Timeframe
Vietnam Academy of Social Science (VASS)	Quick Survey of Global Financial-Economic Crisis Impact on Enterprises and Employees	Ongoing, first round reports available
Vietnam Economic Network (VECON)	Economic News, Analysis, and Forecast	Regularly published
Institute for Labor Science and Social Affairs (ILSSA)	Annual Survey of 1,500 enterprises on labor, wages, and social security	Ongoing
Institute for Labor Science and Social Affairs (ILSSA)	A panel survey of 330 clothing and textile firms for STAR-US project	Fieldwork is ongoing
Vietnam Chamber of Commerce and Industry (VCCI)	A survey of 450 firms in HCMC and Hanoi	Scheduled for late 2009/early 2010
UNICEF	A survey of international migrants	Ongoing
General Statistics Office (GSO)	Labor force survey	The 2009 survey is being implemented
GSO	Annual enterprise census	Scheduled for June, 2009
Institute of Statistical Science (ISS), GSO, DIAL and the World Bank	Informal/household-based enterprise pilot survey in HCMC and Hanoi	Late 2009

Source: World Bank Staff compilation.

## II. SOCIAL PROTECTION POLICIES AND PROGRAMMES IN PLACE AT THE ONSET OF THE CRISIS

**Viet Nam's social protection and poverty reduction system is based broadly on three mechanisms:** (i) anti-poverty and social assistance programmes targeted to poor households along with policies to extend access to health and pension insurance for poor and near-poor individuals; (ii) development and anti-poverty programmes and budget equalization mechanisms using geographical targeting to channel resources to poor provinces and poor districts; and (iii) social insurance. Rough estimations suggest that social assistance programmes, health insurance for the poor, and education subsidies, which target the poorest both in the formal and informal sectors, account for close to 2 percent of GDP, including 0.8 percent benefits to people with national merit, such as veterans.

### Household-targeted and Social Assistance Programmes

**There are numerous household-targeted programmes in Viet Nam that provide poor households with preferential access to credit, education, social service subsidies, and cash transfers.** A range of policies and projects to give poor people access to economic assets and services are included under the National Targeted Programme for Poverty Reduction (NTP-PR), formerly the Hunger Eradication and Poverty Reduction Programme (HEPR). Eligibility for these benefits is limited to those households that appear on the annually updated "poor list" maintained by the Ministry of Labor, Invalids, and Social Affairs (MOLISA) (see Box 1). While the programme is managed by MOLISA, most funds are channeled through existing programmes and mechanisms managed by line ministries such as the Ministry of Health and the Ministry of Education and Training. In addition, there is also programme called P-134 that is targeted to poor and disadvantaged ethnic minority households living on agricultural and forest land to provide them with land, housing and clean water.



**In addition, the Vietnamese government provides considerable social assistance cash transfers to different categories of the population.** Social assistance cash transfers are available under Decree 67 to orphans, children, and adolescents deprived of parental care, the elderly living alone, people over the age of 85 without a pension, the severely disabled who are unable to work, the mentally disabled, and poor single parents. Cash transfers are paid monthly and vary between VND 120,000 and 480,000. There is some evidence that the coverage of these cash transfers is uneven across the country.<sup>9</sup> Moreover, people with national merit and victims of natural disasters also have the right to benefits, which adds considerably to the government budget for social assistance. Lastly, there is a plethora of programmes outside the NTP-PR that benefit a range of recipients including poor households, laid-off workers, and ethnic minorities among others that are designed to: (i) promote access to credit; (ii) encourage workers to seek work overseas; (iii) enhance access to housing and land; and (iv) promote access to education and training.

**Table 4: NTP-PR Policies and Projects and Objectives**

<b>NTP-PR Project or Policy</b>		<b>Objective</b>
<i>Policies and projects aimed at increasing the income of poor people</i>		
1	Policy on preferential credit for poor households	Enhancing poor people's financial capital to make investments that will increase their cash income
2	Policy providing productive land for poor ethnic households	Providing poor ethnic minorities with a principal asset, land, through which to increase their food security and income-earning potential
3	Project on agricultural-forestry-fishery extension and support for <b>development of production and occupation</b>	Increasing the human capital base of poor people to enable them to make maximize the use of household's available assets
4	Project providing necessary infrastructure in communes with special difficulties in coastline and island areas	Strengthening the enabling environment in poor communes to enable poor households to access markets and income-earning opportunities, and to stimulate commercial activity in poor areas
5	Project providing vocational training to poor people	Strengthening the human capital of poor people, equipping them with knowledge and skills to access employment or market opportunities
6	Project replicating good practices for reducing poverty	Model development and sharing of experience to ensure the spreading of information on successful practices for reducing poverty
<i>Policies facilitating poor people's access to social services:</i>		

9 World Bank (2008)

7	Policy providing free health care to poor people	Enabling poor people to access state health services free of charge in order to enjoy better health as an end in itself and also to be more productive
8	Policy promoting education for poor people	Enabling poor students who would otherwise be unable to attend school, to participate in education, strengthening their human capital, future employment and income earning prospects, and the long term economic prospects of their households
9	Policy providing better sanitation and clean water	Improving the environmental sanitation conditions in poor communes to improve communal health and the productivity of villagers who would then be less prone to disease
10	Policy providing legal support for poor people	Enabling poor people to access information and support in pursuit of their rights to access state services
Projects that build capacity and raise awareness		
11	Project enhancing poor's poverty reduction capacity	
12	Monitoring and evaluation	

Source: NTP-PR Mid-Term Review

**Viet Nam's main expenditures on non-contributory social protection programmes are in pension payments to pre-1995 retirees and benefits for individuals with national merit – and considerably larger than anti-poverty programmes.** While consistent expenditure data on relevant social protection programmes are not readily available, recent estimations<sup>10</sup> suggest that Viet Nam may be spending in the vicinity of 4 percent of GDP on social assistance, pensions for the pre-1995 retirees, access to health insurance for the poor and near-poor, education grants, and poverty reduction programmes. Geographically and household-targeted anti-poverty programmes accounted for 0.3 percent of GDP in 2008. This was roughly equal to the government's expenditures on disaster relief, considerably less than its expenditures on pensions for pre-1995 retirees and people with national merit but considerably more than its outlays on social assistance allowances under Decision 67. The estimations suggest that the programmes introduced in 2009 in the anti-crisis stimulus package represented around 0.4 percent of GDP (see Table 5). It is important to note, though, that these are estimations of budget allocations. It is also crucial to look at the actual disbursements, not least due to anecdotal reports of slow disbursements under the NTP-PR. However, these statistics are less readily available. Moreover, the estimates are likely to understate the full magnitude of support available to poor people, as they do not include any local activities that may be funded through budget reallocations and through national targeted programmes.

<sup>10</sup> Castel (2006)

**Table 5: Estimates of Non-contributory Social Protection Budget in 2008 and 2009**

	2008		2009		Sources
	VND billion	% GDP	VND billion	%GDP	
<b>Social Assistance</b>	<b>21,711</b>	<b>1.47</b>	<b>23,649</b>	<b>1.42</b>	
Allowances under Decision 67	2,036	0.14	2,036	0.12	ILSSA, SPS paper
Tet 2009 cash transfer			1,700	0.1	MoLISA <sup>1</sup>
Aid to natural disaster victims	4,762	0.32	4,879	0.29	ILSSA, SPS paper
Social services	1,301	0.09	1,343	0.08	ILSSA, SPS paper
Benefits to people with national merit	13,613	0.92	13,691	0.82	ILSSA, SPS paper
<b>Social insurance</b>	<b>23,044</b>	<b>1.56</b>	<b>23,044</b>	<b>1.56</b>	
State budget transfer for pre-95 retirees	23,044	1.56	23,044	1.49	ILSSA, P.Castel pension model
Severance pay 2009, 200,000 workers				0.06	Stimulus package <sup>2</sup>
<b>Health Insurance</b>	<b>2,217</b>	<b>0.15</b>	<b>5,840</b>	<b>0.35</b>	
State budget transfer for the poor	2,217	0.15	3,726	0.22	Author's estimate <sup>4</sup>
Children under 6			1,838	0.11	Author's estimate <sup>5</sup>
Near-poor			241	0.01	Author's estimate <sup>6</sup>
<b>Education Subsidies</b>	<b>1,432</b>	<b>0.1</b>	<b>1,432</b>	<b>0.1</b>	MoLISA NTPPR
<b>Bonus to Low-income Civil Servants</b>			<b>360</b>	<b>0.02</b>	Stimulus package <sup>2</sup>
<b>Labor Market Policies</b>	<b>1,327</b>	<b>0.09</b>	<b>1,342</b>	<b>0.08</b>	ILSSA, SPS paper
<b>Poverty Reduction Programs</b>	<b>4,564</b>	<b>0.31</b>	<b>9,689</b>	<b>0.58</b>	
NTP-PR and P-135 2006-2010	4,564	0.31	4,564	0.27	ILSSA, SPS paper
Poorest 61 districts			1,525	0.09	Stimulus package <sup>2</sup>
Housing additional aid			3,600	0.22	Stimulus package <sup>2</sup>
<b>Total</b>	<b>54,295</b>	<b>3.67</b>	<b>68,220</b>	<b>4.1</b>	

Source: Castel (2006),

Notes: 1/ Distributed to 2.334 mln households. 2/ Government stimulus package in World Bank (2009a). 3/ Based on preliminary GSO estimate of GDP growth rate of 5.3% in the year and CPI trend in the first 8 months of 2009. 4/ Based on the number of poor households beneficiaries of the Tet bonus, VSS figures, and VHLSS 2006 data; the study estimates that about 7.9 million people living in mountainous areas (6 years and older) benefit from health insurance subsidies. 5/ Based on Census 2009 total population and GSO share of children under the age of 6 in 2008. 6/ Based on GSO report poverty rate at the end of 2008 of 13.5%, the number of near-poor in 2009 is the gap between the resulting number of poor in 2008 (aged 6 and older) and the number of poor reported by MoLISA for the distribution of the Tet allowance in 2009 (aged 6 and older).

### **Geographically Targeted Anti-poverty and Development Programmes**

**Geographically targeted development programmes are not specifically targeted to poor people but target particularly deprived areas with aid to promote general socioeconomic development.** They include national targeted programmes, budget reallocation mechanisms, and targeted anti-poverty programmes. National targeted programmes consist of a wide range of programmes that combat poverty indirectly by providing these communities with such inputs as immunization, general education, and electrification. The programmes set targets that the provincial governments are obliged to meet. The provincial governments draw up plans based on their perceived needs and submit them to the central government for approval, and the government then distributes funds based on the content of these plans. In addition to national targeted programmes, the central government makes budget allocations directly to the provinces to use in carrying out their own investment plans. These allocations comprise about half of all public expenditures and are distributed progressively in the sense that poorer provinces receive

disproportionately high allocations. In fact, there is evidence that more net transfers have reached poorer regions than richer regions over time.<sup>11</sup> The distribution formulas are transparent and are based on population numbers, the level of development, geographic conditions, and the organization of the local governments. Some provinces receive more than half of their GDP in these equalization grants, and the central government puts a strong emphasis on the need to spend these resources strictly in accordance with the regional and local economic development plans. However, there is no evidence on how these funds are actually spent at provincial or district levels and how or whether they reach the poor.

**The main geographically targeted anti-poverty programmes are the P-135 Programme and the 61 Poorest Districts Programme.** The P 135 Programme, started in 1998 and now in its second phase running until 2010, is funded jointly by the government and donors and is managed by the Committee for Ethnic Minority Affairs (CEMA), which channels resources to fund infrastructure projects in geographic regions with high concentrations of ethnic minority populations and with the poorest villages. It aims to increase farmers’ knowledge and encourage local production of profitable commodities and to improve socio-cultural life and narrow the socioeconomic gaps between regions and ethnic groups. Provinces are allocated resources based on how many of their communes qualify for assistance according to the following targeting criteria: (i) a lack of four out of seven essential infrastructure facilities (transport, water, power, schools, health clinics, and markets), (ii) social factors such as large numbers of ethnic minorities, difficulties with communication, and education gaps (iii) production difficulties such as a lack of cultivation or low rates of sedentary farming; and (iv) unsatisfactory living conditions including poverty and bad housing conditions. P-135 is largely an investment programme with the majority of expenditures going to infrastructure development, and there is not much coordination between P-135 and other household or geographically targeted programmes. A recent mid-term review of the programme stated that there is no integrated planning and budgeting at the local level either. The vertical structure of each project and the lack of coordination with NTP-PR projects are not conducive to strategic planning. Communes tend to approach all of this assistance in a piecemeal fashion instead of trying to pool all of the resources to realize a coherent vision of how they would like to develop. The review concluded that the infrastructure projects are relatively well managed and have been successful in alleviating poverty and integrating P-135 communes better within their regions. However, the production, livelihood, and capacity-building components – which represent a minority of the funds – have not been as successful. Table 6 presents an overview of Viet Nam’s household-targeted and geographically targeted programmes.

**Table 6: Overview of Social Protection, Anti-poverty, and Social Development Programs**

Name	Objective	Targeting	Activities	Duration
<i>Geographically targeted development programs</i>				
National Targeted Programs	Reduce poverty through general socioeconomic development	Provinces with poverty prevalence weighted allocation	Wide range incl. immunization, education, electrification	Continuous

11 World Bank (2008)

Budget reallocations	Promote socio-economic development of lagging regions	Provinces with poverty prevalence weighted allocation	Re-distributes funds based on provincial level of development, population, geography	Continuous
P-135	Reduce poverty in poor communes with high share of ethnic minority	Poor communes	Investments in infrastructure, production, livelihood generation and capacity building	Until end of 2010
Poorest 61 Districts	Reduce poverty in poorest districts	Poor districts	Investments in production, job creation and income generation, education, infrastructure and local government capacity	Until end of 2010
Other geographically-based programs for ethnic minorities, e.g. for Mekong Delta and Central Highland regions	Reduce poverty among ethnic minorities	Poor ethnic minority households in defined regions	Access to land and forest, training for employment and other	Until end of 2010
<i>Household-targeted programs</i>				
National targeted programs for poverty reduction (NTP-PR)	Reduce poverty among poor households in poor regions	Poor HH, based on MOLISA's poverty list	Production development and increased income; Improving access to social services; local capacity-building	Until end of 2010
P-134	Reduce poverty of ethnic minority households	Poor and disadvantaged ethnic minority households living on agriculture and/or forestry	Provision of land, housing and clean water	Until end-2010
Decree 67	Provide social assistance for individuals unable to work	Poor individuals unable to work	Cash transfers to vulnerable groups	Continuous
Tet 2009 cash transfer	Social assistance and stimulus	Poor HH, using MOLISA's poverty list	Income support	One-off, February 2009
Housing support of the poor	Social assistance and stimulus	Poor HH	Cash subsidies and credits for poor rural households in poor housing	Until end-2012

Source: Authors' compilation

### **Box 1: The MOLISA Poverty List and Targeting**

The NTP-PR targets poor households using an identification mechanism defined by MOLISA. Poor households are formally identified annually by the Commune People's Committees on the basis of an official poverty line, defined currently as VND 200,000 per person per month in rural areas and VND 260,000 in urban areas. It was set in 2005 and has not been changed since, despite considerable inflation, although discussions are underway about increasing the poverty line in 2010.

In practice, the committees decide whether a household's income is above or below this threshold through a combination of surveys and community discussions, and there is anecdotal evidence that households can repeatedly cycle on and off the poverty list. Analysis shows that there are discrepancies between poor households as defined by the poor list and those identified from household survey data. For example, according to the VHLSS 2006 data, 49 percent of the population of the Northwest region is below the poverty line, while according to the poor list, only 22 percent of the region's population is officially classified as poor. The poverty list is a targeting mechanism that relies on local administration and knowledge and it has become a respected tool for identifying the poor. However its methodology is currently being refined and improved by the introduction of a proxy-means test that can help identify survey responses that are more closely co-related to poverty.

The poverty list also served as the basis for identifying the beneficiaries for the 2009 Tet new year cash transfer that was introduced as an anti-crisis measure as part of the stimulus package.

*Source: World Bank (2008)*

### **Social Insurance**

**Social insurance programmes include contributory pension, disability, sickness, health, and unemployment insurance managed by the Viet Nam Social Security (VSS) agency.** Social insurance contributions and coverage are mandatory for most firms and employees in the formal sector. Given the limited share of the formal sector in total employment, the government's aim is to substantially widen the currently low coverage of old age, unemployment, and health insurance to include informal sector workers by promoting voluntary participation and by subsidizing access to health insurance for the poor and the near-poor.

**In health insurance, the government's stated goal is to achieve universal health insurance coverage by 2014, according to the new Health Insurance Law that came into effect on July 1, 2009.** Contributions are currently mandatory for workers in the formal sector, while informal workers and family members of formally employed can contribute voluntarily. The VSS extends health insurance coverage to pensioners and beneficiaries of social assistance. The central government budget subsidizes access to health insurance for the poor, populations in mountainous areas, and, since 2009, children under the age of 6 and covers half of the cost of health insurance cards for the near-poor (those with incomes between 100 and 130 percent of the poverty line). From 2010, the government will also cover half of the cost of health cards for students. Health insurance coverage has been rising rapidly, from 11.3 million people in 2001 (including 6.7 million compulsory participants) to about 37 million in early 2008 (13.4 million of whom were compulsorily covered), with rural residents accounting for about 20 percent. The covered include 15.8 million poor people, 7.5 million students, and 3.2m voluntary contributors.<sup>12</sup> The challenges that the government faces in trying to maintain and increase health insurance coverage include: (i) finding ways to encourage workers in the informal sector to join a voluntary and/or partly subsidized component of the social

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health insurance system; (ii) maintaining and increasing insurance coverage, in particularly in the face of the rapidly escalating costs of health care; and (iii) improving the quality of health care provided to insurance beneficiaries.

**Viet Nam runs a traditional pay-as-you-go (PAYG) pension insurance system that is supported by the current contributions of workers, mostly in the public and foreign enterprise sectors.** With the share of formal employment in total employment remaining low and contribution compliance among formal sector enterprises limited, the coverage of social security is low (see Table 7 and Figure 2). However, coverage has been growing rapidly with economic growth in recent years, rising from 4.2 million participants in 2000 to 7.4 million in 2007 (with a 10 percent growth rate between 2006 and 2007 alone). The ratio of contributors to beneficiaries has accordingly improved despite the increase in the number of social insurance recipients – by 2007, there were 3.5 contributors for every beneficiary. Social insurance expenditures are projected to be VND 25.9 billion in 2009, or roughly 6.9 percent of total government expenditure. Social insurance revenues exceed expenditures, though this surplus has been progressively falling as a percentage of expenditures. A new social security law became effective in January 2007 that covers compulsory and (new) voluntary retirement pensions, disability pensions, and short-term benefits related to sickness, maternity, and occupational disease and injury. To improve the system’s fiscal position in light of its long-term liabilities, contribution rates will gradually increase from 16 percent to 22 percent, with a wage cap set at of 20 times the legal minimum wage. The law introduced a cost of living indexation adjustment, with the actual indexation level to be regulated by government. The voluntary scheme currently has only 6,000 participants, consisting largely of those seeking to top-up their prior contributions in order to qualify for benefits. Lastly, the government provides considerable budget financing for pension payments for pre-1995 retirees.

**Table 7: Demography and Labor Force Structure, 2006**

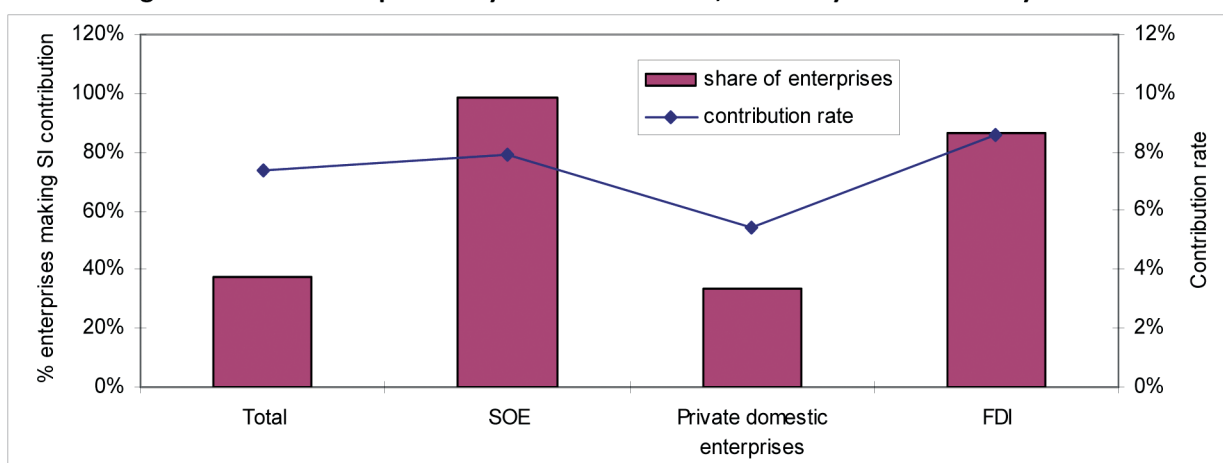
	Thousands	Percent
<b>Wage workers with earnings above the minimum wage</b>	<b>17,461</b>	<b>33.3</b>
Registered	6,769	12.9
Avoiders and temporaries	2,984	5.7
Self-employed	7,708	14.7
<b>Non-wage workers with earnings above the minimum wage</b>	<b>19,356</b>	<b>36.9</b>
Farmers	9,924	18.9
Self-employed	9,432	18
<b>Low-income earners</b>	<b>5,076</b>	<b>9.7</b>
<b>Pensioners</b>	<b>461</b>	<b>0.9</b>
<b>Unemployed and inactive</b>	<b>10,126</b>	<b>19.3</b>
<b>Total</b>	<b>52,481</b>	<b>100</b>

Source: Calculations based on VHLSS 2006, from World Bank (2009b)



In addition, Viet Nam introduced a contribution-based unemployment insurance system in January 2009. When it becomes effective in January 2010, this system will give access to unemployment benefit to workers who have been formally employed for a minimum of 12 months. This programme has probably come too late to redress the effects of the crisis. Moreover, the impact of the unemployment insurance system is likely to be modest for some time, given the fact that only 38.7 percent of wage employment and 16.1 percent of total employment was in the formal sector as of 2006.<sup>13</sup>

**Figure 2: Some Enterprises Pay No Contributions, Most Pay Less Than They Should**



Source: Calculations based on GSO Enterprise Survey 2006, from World Bank (2009b)

### III. ADJUSTMENTS TO SP PROGRAMMES MADE IN RESPONSE TO THE CRISIS AND OUTCOMES

**The existing largely geographically targeted anti-poverty programmes have not been adjusted and expanded in response to the crisis.** The existing anti-poverty programmes, for administrative complexity and other reasons, appear not to have served the purpose of a safety net for people most affected by the economic crisis. This is most evident in the example of returning migrant workers. Research suggests that migrant workers who, as a result of losing employment in urban areas, returned to their homes in underdeveloped rural areas found little or no employment opportunities there, despite the existence of geographically-targeted anti-poverty programmes.<sup>14</sup>

**Instead of adjusting existing programmes to take account of the effects of the crisis, the government introduced a series of new programmes in the stimulus package adopted around the Tet New Year in February 2009.** The stimulus package amounted to about 8.3 percent of GDP, with social protection programmes accounting for 16 percent of the total package. This included three interventions:

1. The main immediate social safety net response was through a one-off targeted cash transfer during the Tet New Year holiday (consisting of VND 200,000 per poor person, up to VND 1,000,000 per poor household, adding up to VND 1.7 trillion

<sup>13</sup> VHLSS 2006 reported by Castel (2006)

<sup>14</sup> IPSARD (2009)

overall) based on the MOLISA “poor list,” which allowed a rapid identification of beneficiaries (approximately 2.3 million households containing 9.2 million individuals) eligible to receive the cash transfer.

2. A new regionally targeted programme for the poorest 61 Districts (each with a poverty rate of over 50 percent) that allocated an advance of VND 25 billion to each of the provinces, amounting to a total of VND 1.5 trillion. This scheme had been designed some time earlier but was put forward as part of the stimulus package. The 61 Districts Programme was added to an existing set of geographically targeted programmes, (P-135) and supports agricultural production, job creation, and income generation and aims to increase access to credit, encourage workers to seek jobs overseas, provide more education and training, promote the rotation of public officials to bring more and better-trained officials to poor areas, and invest in infrastructure, particularly in disaster-prone regions. Decisions about how to allocate the resources are taken by the District Peoples’ Committees subject to the approval of the Provincial Peoples’ Committee. By June 2009, 11 of 62 district poverty reduction projects had been approved, though nothing is yet known about their actual disbursements.<sup>15</sup>
3. A programme providing housing support to around 0.5 million poor rural households on the MOLISA poverty list living in substandard, dilapidated, or temporary housing. The programme, which is to be completed by 2012, consists of subsidies of VND6 million and loans of VND 8 million, adding up to VND 3.6 trillion.

#### **IV. SOCIAL PROTECTION POLICY ISSUES TO BE ADDRESSED OR FURTHER ANALYZED**

**Viet Nam’s experience of the economic slowdown has three immediate implications for future policy planning.** First, it appears that the need to protect vulnerable segments of the population during shocks and crises cannot easily be met using existing programmes and institutions. Second, an assessment is needed of whether the existing anti-poverty programmes fully meet the need of the poor and vulnerable, even in times when there is no crisis. Third, as the crisis abates, it is important to look ahead and plan for the needs that Viet Nam has as it prepares to become a middle-income country.

**Existing anti-poverty programmes, most of which are geographically targeted, tackle structural poverty, which has largely been geographically concentrated in Viet Nam.** Therefore, Viet Nam’s anti-poverty programmes (such as NTP-PR and P-135) have been appropriate for addressing chronic poverty in rural areas, particularly those with a high share of ethnic minorities. These programmes have been associated with considerable reductions in rural poverty. In addition, other programmes exist that provide income support (often through cash transfers) to individuals who are not able to work due to chronic illness, disability, or old age. However, the crisis has revealed the limitations of Viet Nam’s current social safety net, and existing anti-poverty programmes are no substitute for quick and responsive social safety net programmes.

**Viet Nam’s few existing social safety net programmes are not suitable for responding to the needs generated by shocks.** However, one or two of them can be used as building blocks. For example, Viet Nam has a well-functioning

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15 Castel (2006)

mechanism for identifying the poor through its annually updated “poor list.” Once its methodology and the way in which it is used are refined and improved, the poor list will be an appropriate basis for developing a cash transfer-based safety net instrument in the future. Also, Viet Nam currently has an unemployment insurance system covering formal sector employees, and it is now considering what forms of protection should be introduced to cover informal and mobile workers.

**Viet Nam’s current system of geographically and household targeted programmes has grown in an ad hoc and fragmented manner, and yet policymakers continue to add new programmes, thus continuing this trend.** There is little information on whether these programmes overlap with each other or leave gaps in coverage or on the numbers of their beneficiaries. This not only potentially limits their effectiveness in reducing poverty, but coverage gaps also have a particularly detrimental effect in times of crisis. A mid-term review of the NTP-PR concluded that, although NTP-PR programmes adhered to the priorities expressed in the Socioeconomic Development Plan, there was a lack of coordination among them, and between them and other programmes such as P-135. In other words, Viet Nam’s safety net programmes tend to overlap, and information flows across programmes are not always consistent. Moreover, because these programmes are funded from a multitude of different sources, it is difficult to monitor their expenditures. In another example, existing geographically targeted programmes typically focus on agriculture, and the Ministry of Rural and Agricultural Development has recently developed a new programme with the objectives of modernizing agricultural production and improving natural disaster prevention and mitigation. The risk of overlap is substantial. Given the limitations in coordination, it will be challenging to introduce new programmes such as the 61 Poorest Districts programme.

**Moreover, as Viet Nam’s economy changes, it is revealing new vulnerabilities that will not be easily addressed through the existing system.** For example, Viet Nam is facing the challenge of being able to absorb 1.5 million new labor market entrants each year. This will be a particular challenge in the case of migrant workers in urban areas, especially those who are informally employed, and of young (less skilled) workers. Because of the current lack of information about gaps and overlaps among existing programmes, it will be important for policymakers to explore in depth the regional distribution of programme activities and the distribution of spending among programmes and to estimate the share of the population covered by each programme. As the economy grows and urbanizes, the country’s poverty profile will evolve, and it will be critical to look beyond the crisis and put instruments in place that will address these emerging longer-term vulnerabilities. Various forthcoming studies using data from the 2008 Viet Nam Household Living Standards Survey (VHLSS) will provide a sound basis for assessing whether the existing system will remain appropriate as Viet Nam becomes a middle-income country over the next few years. Looking ahead, there are two crucial questions that need to be asked: (i) Which additional systematic formal social safety net instruments, if any, would be appropriate to help to mitigate the effects of economic shocks? And (ii) Will the existing system of geographically targeted anti-poverty programmes remain sufficient to address existing and emerging chronic vulnerabilities among rural communities, ethnic minorities, migrant workers, and others?

## **ACKNOWLEDGEMENTS**

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**Annex Table 1: Data Availability**

Indicators	Frequency	Latest	Publication/responsible agencies
<b>Macroeconomic indicators</b>			
GDP growth by sector	Quarterly	Q2 2009	CECI database
CPI by category	Monthly	June 2009	GSO website
Export/import by commodity	Monthly	June 2009	GSO website
<b>Public spending</b>			
Public spending by sector	Annually	2008	MoF website
<b>Labor Market</b>			
Population by age and labor force	2007	2007	The 2007 Population Change and Family Planning Survey
Urban unemployment rate by region	Annually	2008	GSO website
Employment by sector, # of persons	Annually	2008	GSO website
Unemployment by education level *	Annually	2006	Living standard survey (VLSS), 2008 figure forthcoming with the new survey
Wage rate by State sector	Annually	2008	GSO website
Rural Underemployment*	Not avail		Could be calculated from LSS
Wage rate of local state by region	Annually	2007	Statistical Yearbook of Vietnam 2007
Wage rate of private sector*	Not avail.		Could be calculated from LSS
Productivity by economic activities	Annually	2008	GSO website
Labor movement*	Not avail.		Could be calculated from LSS
Labor demand by sector*	Not avail.		
Other indicators*		2008/09	IP study, RR Survey, LSS, LF survey.**
<b>Social Indicators</b>			
Poverty rate at national poverty line	Annually	2008	GSO website
Average income pc, rural/urban	Annually	2007	Statistical Yearbook of Vietnam 2007
School enrollment by level, persons	Annually	2008	GSO website
School enrollment ratio by level, %	Annually	2006	2008 figures forthcoming
Average doctors per 10,000 persons	Annually	2007	GSO website
Other indicators*		2008	LSS, forthcoming with the new survey

Sources: Staff compilation.

Notes: \*Not yet available publicly.

\*\* Industrial Park (IP) study done by VASS, Rapid Response (RR) survey, Enterprise panel surveys, panel survey of household enterprises in Hanoi and HCMC, and panel survey of 650 firms.



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